Consolidated Financial Statements and Supplementary Information

Mercy Health
Years Ended December 31, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP

EY
Building a better working world

Mercy Health

Consolidated Financial Statements
and Supplementary Information

December 31, 2014 and 2013

Contents

MERCYHEALTH

Statement of Management Responsibility

The accompanying consolidated financial statements of Mercy Health (the Company) for the years ended December 31, 2014 and 2013 were prepared by the Company's management in conformity with U.S. generally accepted accounting principles appropriate in the circumstances.

Management of the Company is responsible for the integrity and objectivity of the consolidated financial statements, which are presented using the accrual basis of accounting and, accordingly, include some amounts based on judgments and estimates. The accounting procedures and related system of internal control are designed to ensure the books and records reflect the transactions of the Company in accordance with established policies and procedures as implemented by qualified personnel. The system of internal control over financial reporting is designed to provide reasonable assurance to the Company's Management and Board of Trustees regarding safeguarding of assets against unauthorized acquisition, use or disposition of the Company's assets and the preparation of reliable published consolidated financial statements. Even effective internal control, no matter how well designed, has inherent limitations – including the possibility of the circumvention or overriding of controls – and, therefore, can provide only reasonable assurance with respect to consolidated financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

The Board of Trustees, through its Finance Committee, reviews the financial and accounting operations of the Company, including the review and discussion of periodic consolidated financial statements and the evaluation and adoption of budgets. The Board of Trustees, through its Audit and Corporate Responsibility Committee reviews the accuracy and integrity of financial reporting processes, oversees compliance and auditing functions and reviews the basis of the audit engagement and reports of independent auditors.

Ernst & Young LLP, the independent auditors of the Company, have audited the consolidated financial statements of the Company for the years ended December 31, 2014 and 2013, and their report thereon is included herein. The independent auditors meet with members of the Audit and Corporate Responsibility Committee of the Board of Trustees, in the absence of Management personnel, to discuss the results of their audit and are afforded the opportunity to present their comments with respect to the conduct of the audit engagement.

Michael D. Connelly
President & Chief Executive Officer

Deborah S. Bloomfield
EVP, Chief Financial Officer

Travis L. Crum
System VP, Finance & Corporate Controller

March 25, 2015

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Report of Independent Auditors

The Board of Trustees
Mercy Health

We have audited the accompanying consolidated financial statements of Mercy Health (the Company), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mercy Health at December 31, 2014 and 2013, and the consolidated results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 25, 2015

Mercy Health

Consolidated Balance Sheets
(In Thousands)

	December 31	
	2014	**2013**
Assets		
Current assets:		
Cash and cash equivalents	**$ 118,171**	$ 151,644
Investments	**51,000**	116,122
Total cash and investments	**169,171**	267,766
Net patient accounts less allowance for doubtful receivables of $193,581 in 2014 and $203,456 in 2013	**501,071**	443,051
Net premiums receivable	**22,867**	19,668
Other receivables	**62,349**	95,957
Assets whose use is limited under securities lending arrangement	**49,976**	65,741
Estimated receivables from third-party payors	**29,569**	41,137
Inventories	**98,565**	87,328
Prepaid expenses and other current assets	**53,539**	46,157
Total current assets	**987,107**	1,066,805
Assets whose use is limited:		
Board designated funds	**2,078,333**	1,975,136
Trustee-held assets and funds for self-insurance liabilities	**113,043**	110,426
Securities on loan under securities lending arrangements	**58,258**	75,952
Restricted for interest rate swap agreements collateral requirements	**11,511**	1,641
Total assets whose use is limited	**2,261,145**	2,163,155
Property and equipment, net	**2,389,156**	2,343,057
Retirement assets	**2,072**	27,856
Investments in unconsolidated organizations	**309,368**	275,883
Other long-term assets	**193,886**	210,297
Total assets	**$ 6,142,734**	$ 6,087,053

	December 31	
	2014	2013
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 199,222**	$ 219,238
Salaries and related liabilities	**278,489**	203,114
Accrued claims expense and related liabilities	**28,781**	49,127
Estimated payables to third-party payors	**46,247**	62,372
Accrued interest	**14,205**	15,025
Current portion of long-term debt	**262,734**	160,161
Payable under securities lending arrangements	**49,976**	65,741
Other current liabilities	**75,050**	66,589
Total current liabilities	**954,704**	841,367
Long-term debt, net of current portion	**1,517,510**	1,681,879
Interest rate swap agreements liability	**40,590**	29,508
Retirement liabilities	**235,430**	121,619
Self-insurance liabilities	**136,078**	140,290
Other long-term liabilities	**167,936**	175,340
Total liabilities	**3,052,248**	2,990,003
Net assets:		
Unrestricted	**2,847,309**	2,871,237
Temporarily restricted	**79,738**	63,504
Permanently restricted	**67,840**	67,124
Total net assets excluding noncontrolling interest	**2,994,887**	3,001,865
Noncontrolling interest	**95,599**	95,185
Total net assets	**3,090,486**	3,097,050
Total liabilities and net assets	**$ 6,142,734**	$ 6,087,053

See notes to consolidated financial statements.

Mercy Health

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended December 31	
	2014	**2013**
Unrestricted revenue		
Patient service revenue (net of contractual provisions and discounts)	**$ 4,106,931**	$ 3,939,584
Provision for bad debt	**268,755**	294,505
Net patient service revenue less provision for bad debts	**3,838,176**	3,645,079
Member revenue, net	**477,380**	117,809
Other revenue, net	**194,628**	183,303
	4,510,184	3,946,191
Expenses		
Salaries and wages	**1,766,150**	1,618,674
Employee benefits	**427,631**	383,313
Supplies	**726,167**	653,137
Purchased services	**560,695**	457,186
Utilities	**71,419**	66,299
Rent	**91,285**	92,373
Medical professional fees	**105,458**	103,759
Medical claims expense	**183,686**	43,490
Insurance	**37,244**	33,555
Interest	**57,309**	48,499
Depreciation and amortization	**257,236**	225,055
Other	**94,473**	93,523
	4,378,753	3,818,863
Excess of revenue over expenses before other (loss) income	**131,431**	127,328
Other (loss) income:		
Realized and unrealized interest rate swap agreements (loss) gain	**(39,233)**	41,831
Other expenses related to long-lived assets	**(23,318)**	(9,744)
Foundation net operating loss	**(9,931)**	(7,839)
Other, primarily investment income	**91,150**	179,253
Excess of revenue over expenses before a business combination	**150,099**	330,829
Excess of fair value of assets over liabilities in a business combination	**–**	33,319
Excess of revenue over expenses	**150,099**	364,148
Excess of revenue over expenses attributable to noncontrolling interest	**19,962**	20,867
Excess of revenue over expenses attributable to Mercy Health	**130,137**	343,281

Mercy Health

Consolidated Statements of Operations and Changes in Net Assets (continued)

(In Thousands)

	Year Ended December 31 2014	2013
	(In Thousands)	
Changes in net assets:		
Gain on discontinued operations	**$ 10,897**	$ 31,315
Change in unrealized gains and losses on restricted investments	**(2,162)**	2,070
Restricted contributions	**31,241**	17,016
Net assets released from restriction for operating activities	**(16,830)**	(14,698)
Distributions to noncontrolling interests	**(14,508)**	(15,450)
Change in plan assets and benefit obligations of postretirement plans	**(175,054)**	172,527
Other changes, net	**9,753**	9,766
Change in net assets	**(6,564)**	566,694
Changes in net assets attributable to noncontrolling interest	**414**	21,459
Changes in net assets attributable to Mercy Health	**(6,978)**	545,235
(Decrease) increase in total net assets	**(6,564)**	566,694
Net assets at beginning of period	**3,097,050**	2,530,356
Net assets at end of period	**$ 3,090,486**	$ 3,097,050

See notes to consolidated financial statements.

Mercy Health

Consolidated Statements of Cash Flows

	Year Ended December 31, 2014	Year Ended December 31, 2013
	(In Thousands)	
Operating activities		
(Decrease) increase in net assets	**$ (6,564)**	$ 566,694
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	**268,755**	294,505
Depreciation and amortization	**255,561**	223,418
Unrealized gain on interest rate swap agreements	**(10,893)**	(95,160)
Impairment of long-lived assets	**16,331**	7,796
Change in net unrealized losses (gains) on investments	**32,236**	(49,413)
Equity loss (income) from alternative investments	**24,062**	(30,323)
Gain on sale of discontinued operations	**–**	(36,071)
Excess of assets over liabilities in a business combination	**–**	(33,319)
Change in plan assets and benefit obligations of postretirement plans	**175,054**	(172,527)
Restricted contributions	**(31,241)**	(17,016)
Cash (used in) provided by changes in operating assets and liabilities:		
Net patient accounts	**(326,775)**	(259,236)
Other current assets	**23,358**	(15,506)
Investments and assets whose use is limited	**(67,207)**	252,460
Assets whose use is limited under securities lending arrangements	**15,765**	(6,615)
Other assets	**26,014**	(54,395)
Current liabilities	**13,414**	11,243
Other long-term liabilities	**(53,653)**	72,954
Net cash provided by operating activities	**354,217**	659,489
Investing activities		
Additions to property and equipment	**(285,926)**	(408,722)
Purchases of alternative investments	**(21,959)**	(56,989)
Investment in Summa Health System	**–**	(250,000)
Change in investments in unconsolidated organizations	**(33,485)**	(7,043)
Proceeds from sale of Senior Health and Housing facilities	**–**	72,477
Proceeds from business combination	**–**	31,390
Net cash used in investing activities	**(341,370)**	(618,887)
Financing activities		
Principal payments of long-term debt	**(61,796)**	(54,873)
Restricted contributions	**31,241**	17,016
(Decrease) increase in payable under securities lending arrangements	**(15,765)**	6,587
Net cash used in financing activities	**(46,320)**	(31,270)
(Decrease) increase in cash and cash equivalents	**(33,473)**	9,332
Cash and cash equivalents at beginning of period	**151,644**	142,312
Cash and cash equivalents at end of period	**$ 118,171**	$ 151,644

See notes to consolidated financial statements.

A. Basis of Presentation

Mercy Health, formerly Catholic Health Partners (CHP), is a Catholic health organization, supervising market delivery systems consisting of hospitals, nursing homes, and other organizations providing health-related services. Mercy Health is sponsored by Partners in Catholic Health Ministries (PCHM). PCHM is a public juridic person of the Roman Catholic Church. Mercy Health provides management direction to these separately incorporated market delivery systems (market affiliates), which operate in Ohio and Kentucky and carry out the mission, vision, and values of Mercy Health.

As required, in conformity with U.S. generally accepted accounting principles (GAAP), the consolidated financial statements include the balance sheets, results of operations and changes in net assets, and cash flows of Mercy Health, Mercy Health's market affiliates, HealthSpan Partners (HSP), the Mercy Health Home Office, the Mercy Health Shared Services Organization, Mercy Health Self Funding Programs, and CHP Insurance (SPC), Ltd. (the Captive) (collectively, the Company). All intercompany balances and transactions have been eliminated upon consolidation. HSP is a distinct, secular, and non-profit organization with the primary objective of developing expanded provider networks and insurance products. HSP has applied for its formal tax-exempt status.

On October 1, 2013, HSP, through a membership substitution, became the sole corporate member of HealthSpan Integrated Care (formerly known as Kaiser Foundation Health Plan of Ohio [KFHPO]). HealthSpan Integrated Care is a tax-exempt organization that is licensed by the State of Ohio to provide prepaid health care services, which includes health insurance. The membership substitution furthers HSP's objective of developing expanded provider networks and insurance products in the state of Ohio.

Through the membership substitution, HSP assumed all assets and liabilities of KFHPO with the exception of KFHPO's pension, post-retirement, and long-term debt obligations. No consideration was transferred at the time of the membership substitution. Contingent consideration of \$50,000 to \$100,000 will be paid, prior to March 31, 2019, to the previous corporate member of KFHPO based on certain future operating targets. Based on the projected future operating targets, a liability was estimated and recorded at fair value at the time of the membership substitution in the consolidated balance sheet. This liability will continue to be recorded at fair value each reporting period, including at December 31, 2014 as disclosed in Note C.

(Dollar Amounts in Thousands)

A. Basis of Presentation (continued)

The membership substitution was accounted for using the purchase method of accounting. The assets and liabilities assumed as part of the membership substitution were recorded based on their determined fair value. The following summarizes the fair values of the assumed or identified assets and liabilities of HealthSpan Integrated Care at the date of the membership substitution (October 1, 2013) as well as the inherent contribution recognized during the year ended December 31, 2013:

Assets assumed/identified	
Cash and cash equivalents	$ 31,390
Other receivables	20,133
Inventories	6,727
Prepaid expenses and other current assets	1,206
Assets whose use is limited	400
Property and equipment, net	78,063
Identifiable intangible assets	6,500
Assets assumed/identified	144,419
Liabilities assumed/identified	
Accounts payable	(9,795)
Salaries and related liabilities	(5,863)
Estimated payable to third-party payors	(14,443)
Accrued medical claims expense and related liabilities	(26,954)
Other current liabilities	(9,313)
Contingent consideration (discounted)	(43,517)
Other long term liabilities	(1,215)
Liabilities assumed/identified	(111,100)
Excess of fair value of assets over liabilities assumed/identified in business combination	$ 33,319

An inherent contribution was recognized by the Company for the year ended December 31, 2013, primarily as a result of KFHPO retaining all pension, post-retirement and long-term debt obligations.

A. Basis of Presentation (continued)

For the year ended December 31, 2013, the results of operations and cash flows of HealthSpan Integrated Care are included for the period of October 1, 2013 to December 31, 2013. During this period, the operations of HealthSpan Integrated Care contributed $113,264 in operating revenue and $510 of excess of expenses over revenue to the consolidated results of operations.

On an unaudited pro forma basis, had HSP owned HealthSpan Integrated Care at the beginning of fiscal year 2013 (January 1, 2013), HealthSpan Integrated Care would have contributed $484,396 of operating revenue and $35,539 of excess of expenses over revenue to the year ended December 31, 2013. However, unaudited pro forma information is not necessarily indicative of the results that would have been obtained had the member substitution actually occurred on those dates, or of future results.

During 2013, the Company divested of substantially all assets of certain Senior Health and Housing (SHHS) facilities. No liabilities or commitments were retained by the Company as part of the SHHS divestiture. The Company previously divested of substantially all assets of Mercy Health Partners – Northeast Market (Pennsylvania), Mercy Health Partners – Tennessee Market (Tennessee), Catholic Health Partners Housing Development (HUD), and Mercy St. John's Center. The Company retained responsibility for all current and long-term liabilities, including postretirement liabilities, but excluding capital leases for Pennsylvania and Tennessee. No liabilities or commitments were retained by the Company as part of the HUD and Mercy St. John's Center divestitures.

Based on the criteria in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 205, *Discontinued Operations* (ASC 205), the results of operations for certain SHHS facilities, Pennsylvania, Tennessee, HUD and Mercy St. John's Center have been classified as a single consolidated financial statement line within changes in net assets for all periods presented.

(Dollar Amounts in Thousands)

A. Basis of Presentation (continued)

The following is a summary of the components of gain on discontinued operations for the years ended December 31:

	2014	2013
Total revenue, net	**$ 16,126**	$ 67,551
Employment expenses	**7,400**	38,477
Supplies	**823**	6,334
Purchased services	**1,274**	11,231
Utilities	**363**	3,204
Rent	**44**	230
Medical professional fees	**40**	123
Insurance	**(1,758)**	4,913
Interest	**137**	20
Depreciation and amortization	**637**	4,576
Other	**(3,731)**	3,199
Total expenses	**5,229**	72,307
Excess of revenue over expenses (expenses over revenue) before other income	**10,897**	(4,756)
Gain on sale of certain SHHS facilities	**–**	36,071
Gain on discontinued operations	**$ 10,897**	**$ 31,315**

The gain or loss on discontinued operations excludes general corporate overhead allocations, certain interest expense and other, primarily investment income as long-term debt, investments and assets limited as to use, except restricted funds, are being retained by the Company.

B. Significant Accounting Policies

Cash and Cash Equivalents

The Company considers highly liquid investments with a maturity of six months or less at the date of purchase to be cash equivalents.

Investments

Investments consist primarily of marketable equity securities, U.S. government and government related obligations, corporate debt obligations, mortgage backed securities, derivatives, private equity, hedge funds, real assets, common trust funds, certificates of deposit and money market funds.

Fair Value Measurements

The Company follows the provisions of ASC 820, *Fair Value Measurements and Disclosure* (ASC 820), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumption in fair value measurements ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity’s own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

B. Significant Accounting Policies (continued)

The three levels are defined as follows:

> Level 1 – inputs utilize quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access.
>
> Level 2 – inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.
>
> Level 3 – inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In order to meet the requirements of ASC 820, the Company utilizes three basic valuation approaches to determine the fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability. The second approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of the Company, including those traded on exchanges, to determine value. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of the Company's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as a discounted cash flow approach).

B. Significant Accounting Policies (continued)

Net Patient Accounts and Net Patient Service Revenue

Net patient accounts are reduced by an allowance for doubtful receivables based upon the historical collection experience of each market affiliate adjusted for current environmental risks and trends for each major payor source. Significant provision is made for self-pay patient accounts in the period of service based on past collection experience. For patient receivables associated with self-pay patients, including patients with deductible and copayment balances for which third-party coverage provides for a portion of the services provided, the Company records an estimated provision for bad debts in the year of service. Self-pay write-offs increased $29,985 for the year ended December 31, 2014, compared to the same period in fiscal 2013 primarily due to the timing of self-pay write-offs as well as slight declines in economic conditions in the Markets the Company operates in. The allowance for doubtful receivables for self-pay patients as a percentage of self-pay accounts receivable was approximately 67% and 70% at December 31, 2014 and 2013. The decline is primarily the result of the expansion of Medicaid eligibility in the States of Ohio and Kentucky. The Company does not maintain a material allowance for doubtful receivables for amounts due from third-party payors.

The Company's concentration of credit risk related to net patient accounts is limited due to the diversity of patients and payors. Net patient accounts consist of amounts due from governmental programs (primarily Medicare and Medicaid), private insurance companies, managed care programs and patients themselves. Significant concentrations of patient accounts at December 31, 2014 and 2013 include the Medicare program 21% and 18%, respectively, and the Medicaid program 15% at both December 31, 2014 and 2013. Excluding the Medicare and Medicaid programs, no one other payor represents more than 10% of the Company's net patient accounts at December 31, 2014 or 2013.

Net patient service revenue for services provided to patients who have third-party payor coverage is recognized based on contractual rates for the services rendered. The Company recognizes a significant amount of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay. As a result, the provision for bad debt is presented as a deduction from patient service revenue net of contractual provisions and discounts. Amounts recognized are subject to adjustment upon review by third-party payors.

(Dollar Amounts in Thousands)

B. Significant Accounting Policies (continued)

For uninsured patients that do not qualify for charity care, the Company recognizes revenue when services are provided. Based on historical experience, a significant portion of the Company's uninsured patients (self-pay) will be unable or unwilling to pay for the services provided. Thus, the Company records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual provisions and discounts (but before the provision for bad debt), recognized by major payor source, is as follows for the years ended December 31:

	2014	2013
Medicare	**$ 1,489,727**	$ 1,455,217
Medicaid	**534,150**	472,091
Other governmental	**65,625**	62,355
Commercial and other third party	**1,798,615**	1,761,245
Self-pay	**218,814**	188,676
	$ 4,106,931	$ 3,939,584

Securities Lending Arrangements

The Company participates in securities lending arrangements with its custodian whereby the Company lends a portion of its marketable securities to various brokers or financial institutions in exchange for cash or non-cash collateral for the marketable securities loaned, usually on a short-term basis. The initial collateral provided by brokers or financial institutions is maintained at levels of at least 100% of the fair value of the marketable securities on loan and is adjusted for market fluctuations. The Company maintains effective control of the loaned marketable securities through its custodian during the term of the arrangement in that they or similar securities may be recalled at any time. Under the terms of the arrangement, the borrower must return the same, or substantially the same, marketable securities that were borrowed.

B. Significant Accounting Policies (continued)

Cash collateral received in connection with the securities lending arrangements is invested in a short-term pooled fund (Pooled Fund) maintained by the Company's custodian (State Street Bank and Trust Company). The fair value of cash collateral held for loaned marketable securities is reported as assets whose use is limited under securities lending arrangements. The Company is required to fund any decline in the underlying market value of invested collateral below the initial amount provided by the various brokers or financial institutions upon exit from the securities lending arrangements. A corresponding payable is reported for repayment of such collateral upon settlement of the securities lending arrangements.

The market value of non-cash collateral at December 31, 2014 and 2013 was $9,886 and $18,115, respectively, and is not recorded in the consolidated balance sheets in accordance with applicable accounting guidance.

Inventories

Inventories, consisting primarily of pharmacy drugs and medical and surgical supplies are stated at the lower of cost or market and are valued principally by the first-in, first-out and weighted average methods.

Assets Whose Use Is Limited

Assets whose use is limited include board-designated funds for the acquisition of property and equipment, funds restricted by donors for charitable purposes, funds for self-insurance liabilities, securities on loan under securities lending arrangements, restricted cash for interest rate swap agreements collateral requirements and trustee-held assets for the retirement of long-term liabilities and the funding of certain capital projects.

Assets whose use is limited include cash and cash equivalents, marketable debt securities (including U.S. government, U.S. government agencies, corporate, mortgage-backed, and asset-backed), marketable equity securities (including U.S. large cap, U.S. mid cap, U.S. small cap, and foreign), exchange traded/mutual funds (including equity and diversified bond funds), commingled investment funds, hedge funds, private equity funds and limited partnerships/ companies.

B. Significant Accounting Policies (continued)

The Company has elected to account for commingled investment funds at fair value. The Company believes that this election is appropriate given the nature of the investments and their similarity to exchange traded/mutual funds.

The carrying value of hedge funds, private equity funds and limited partnerships/companies, collectively, referred to as alternative investments, are based on valuations provided by the administrators of the specific financial instruments. Alternative investments are accounted for using the equity method of accounting based on the net asset value (NAV) provided by the respective administrators of the individual alternative investments. The underlying investments may include marketable debt and equity securities, commodities, foreign currencies, derivatives and private equity investments. The underlying investments are subject to various risks including market, credit, liquidity and foreign exchange risk. The Company believes the carrying amount of alternative investments in the consolidated balance sheets is a reasonable estimate of its ownership interest in the alternative investments NAV. Because these alternative investments are not readily marketable, the estimated carrying value is subject to uncertainty and, therefore, may differ from the value that would have been used had a public market existed. Such differences could be material. The Company's risk related to alternative investments is limited to the carrying value plus amounts committed to private equity disclosed in Note H.

Primarily all of the Company's alternative investments have liquidity restrictions, meaning amounts can be divested only at specific times based on the terms of the respective partnership agreements.

Investment income (including interest and dividends, net realized gains on investments and net changes in unrealized (losses) gains on investments that have been designated as trading) is included in the excess of revenue over expenses as other, primarily investment income.

The global financial markets and banking system are subject to volatility which could adversely impact the Company. The Company's assets whose use is limited are exposed to various risks such as interest rate, market, and credit risks.

B. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is stated at historical cost or, if donated, impaired, or acquired under a business combination, at fair market value at the date of receipt or determination. Depreciation is principally on the straight-line method at rates which are expected to amortize the cost of the property and equipment over their estimated useful lives which range from 3 to 60 years. Amortization of assets held under capital lease obligations is included in depreciation and amortization expense. Depreciation expense was $247,300 and $218,570 for the year ended December 31, 2014 and 2013, respectively, and is included primarily in depreciation and amortization expense.

The cost and related accumulated depreciation of property and equipment that is sold or retired is removed from the respective accounts and the resulting gain or loss is recorded in other, primarily investment income.

Certain property and equipment purchased prior to period end is excluded from additions to property and equipment, net in the consolidated statements of cash flows as cash payments have not been made at the end of the respective period. These excluded additions were $13,114 and $24,413 for year ended December 31, 2014 and 2013, respectively.

Other Expenses Related to Long-Lived Assets

The Company evaluates the carrying value of long-lived assets and the related estimated remaining lives when events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed.

Any resulting impairment losses, asset retirement obligations, or additional required depreciation due to shortened useful lives are reflected as other expenses related to long-lived assets in the consolidated statements of operations and changes in net assets.

B. Significant Accounting Policies (continued)

The Company performs an evaluation to determine whether to recognize a liability for a conditional asset retirement obligation. If the Company has sufficient information, including a determinable settlement date, to reasonably estimate the fair value of an obligation in connection with asset retirement activities, it is required to recognize a liability. Management monitors its legal obligation to perform asset retirement activities, and records a liability and related expense when circumstances arise.

Unamortized Debt Issuance Cost

Unamortized debt issuance cost of $17,679 and $19,413 at December 31, 2014 and 2013, respectively, represents costs related to the issuance of tax-exempt bond obligations and is included in other long-term assets. Substantially all of these amounts are being amortized over the terms of the related tax-exempt bond obligations at amounts approximating the effective interest method.

Investments in Unconsolidated Organizations

The Company maintains an ownership percentage of 50% or less in various joint ventures and other companies that do not require consolidation. The majority of these investments are accounted for using the equity method of accounting as the Company has significant influence over the operating and financial policies of the investee. Investments in unconsolidated organizations are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the investment might not be recoverable. No impairment was recognized for the year ended December 31, 2014 or 2013 and there are no indicators that an impairment loss will be recognized in the near term.

B. Significant Accounting Policies (continued)

Goodwill and Identifiable Intangible Assets

Other long-term assets include goodwill and identifiable intangible assets. Goodwill and identifiable intangible assets have been primarily generated from the acquisition of certain healthcare related businesses including physician practices. The carrying value of goodwill is $50,753 and $60,071 at December 31, 2014 and 2013, respectively. The Company annually performs an evaluation of goodwill for impairment on September 30 considering qualitative and quantitative factors, or more frequently if indicators of impairment exist. The Company recognized approximately $11,000 in impairment losses for the year ended December 31, 2014 as a result of the decline in fair value of certain reporting units of the Company. The fair value of the reporting units and related goodwill was determined using the income approach (discounted cash flows) with observable market inputs (Level 2 measurement). There were no impairment losses recognized for the year ended December 31, 2013. There are no indicators that a material impairment loss will be recognized in the near term.

Identifiable intangible assets consist primarily of market access rights, customer lists, trademarks, and non-compete agreements. The carrying value of identifiable intangible assets is $36,986 and $41,603 at December 31, 2014 and 2013, respectively, and is stated at cost, net of accumulated amortization. Amortization of the identifiable intangible assets is calculated using the straight-line method over estimated lives ranging from 2 to 15 years. Amortization expense was $8,244 and $5,351 for the years ended December 31, 2014 and 2013, respectively, and is included in depreciation and amortization expense. Amortization expense is expected to be approximately $5,000 for each of the next five full fiscal years.

B. Significant Accounting Policies (continued)

Accrued Medical Claims Expense and Related Liabilities

Accrued medical claims expense and related liabilities consist of unpaid health care expenses and premium deficiency reserves. Unpaid health care expenses, which include an estimate of the cost of services provided to members by third-party providers that have been incurred but not reported, was $22,994 and $38,582 at December 31, 2014 and 2013, respectively. The estimate for incurred but not reported claims is based on actuarial projections of costs using historical paid claims and other relevant data. Estimates are monitored and reviewed and, as settlements are made or estimates are revised, adjustments are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of paid claims is dependent on future developments, management is of the opinion that the reserves for claims are adequate to cover such claims.

Premium deficiency reserves and the related expenses are recognized when it is probable that expected future health care and maintenance costs under a group of existing insurance contracts will exceed anticipated future premiums and reinsurance recoveries over the insurance contract period. Expected investment income and interest expense are included in the calculation of premium deficiency reserves, as appropriate. The premium deficiency reserve was approximately $0 and $9,600 at December 31, 2014 and 2013, respectively, and was actuarially determined. The decrease in the premium deficiency reserve in the current year was the result of improved contracts with certain healthcare providers. The methods for making such estimates and for establishing the resulting reserves are reviewed and updated, and any resulting adjustments are reflected in current operations. Given the inherent variability of such estimates, the actual liability could differ significantly from the calculated amount.

Noncontrolling Interests

The consolidated financial statements include all assets, liabilities, revenue and expenses of less than 100% owned entities that the Company controls in accordance with applicable accounting guidance. Accordingly, the Company has reflected a noncontrolling interest for the portion of the Company’s assets, liabilities, revenue and expenses not controlled by the Company, separately in the consolidated balance sheets and the consolidated statements of operations and changes in net assets.

B. Significant Accounting Policies (continued)

Mercy Health and Community Hospital Health Services Foundation (CHF), an unrelated entity, are the corporate members of Community Mercy Health Partners (Springfield) each owning 50% of Springfield. While Mercy Health is neither the sole corporate member nor the majority owner of Springfield, it does have ultimate authority in relation to material changes in use, mergers or dissolution as well as direct approval authority of other elements demonstrating control. These elements of control, along with economic interest, provide for the consolidation of Springfield as a market affiliate of Mercy Health and the recognition of a noncontrolling interest.

Net Assets

Unrestricted net assets are those assets whose use has not been restricted by donors or for which restrictions have expired. Temporarily restricted net assets are those assets whose use by the Company has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Company in perpetuity for the donors' stipulated purpose. Temporarily and permanently restricted net assets are primarily restricted for strategic capital projects and in support of the Company's mission.

Medicare and Medicaid Programs

The Company renders services to patients under contractual arrangements with the Medicare and Medicaid programs. Payment for the majority of Medicare and Medicaid services is based on a prospectively determined fixed price, according to a patient classification system, based on clinical and other diagnostic factors.

Contractual adjustments for the Medicare and Medicaid programs are recognized when the related patient service revenue is reported in the consolidated financial statements. These contractual adjustments represent the difference between established rates and the prospectively determined payments and amounts reimbursed. Amounts earned under these contractual arrangements are subject to review and final determination by Medicare and Medicaid intermediaries and other appropriate governmental authorities or their agents, and may be adjusted in future periods as settlements are determined.

B. Significant Accounting Policies (continued)

In the opinion of management, adequate provision has been made in the consolidated financial statements for any adjustments resulting from the respective intermediary reviews. The Company received settlements related to prior years' cost reports and other third-party contracts which resulted in an increase to net patient service revenue of $24,188 and $19,337 for the years ended December 31, 2014 and 2013, respectively.

In the health care industry, laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Failure to comply with such laws and regulations can result in significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

The United States Department of Justice (DOJ) sent preservation letters in prior years to the Company as part of a national fraud investigation into whether hospitals billed Medicare for implantable cardioverter defibrillators. The Company is fully cooperating with the DOJ and believes it can support the medical necessity of any claims included in the investigation and that it has complied with all federal regulations. These types of investigations have resulted in a broad range of outcomes. As a result, there is at least a reasonable possibility that the recorded estimates at December 31, 2014 and 2013, will change by a material amount in the near term.

Member Revenue, Net

Member revenue, net includes premiums from employer groups, individuals and Medicare. Member revenue is recognized over the period in which members are entitled to insurance coverage for health care services. In addition, Medicare benefits include a voluntary prescription drug benefit (Medicare Part D). Member revenue also includes amounts to reflect a portion of the health care costs for low-income Medicare beneficiaries and a risk-sharing arrangement to limit the exposure to unexpected expenses. Medicare revenue is subject to governmental audits and potential payment adjustments. At December 31, 2014 and 2013, Medicare revenue represented 19% and 16%, respectively, of total member revenue, net. No one other payor represents more than 10% of the Company's member revenue, net at December 31, 2014 or 2013. Premiums collected in advance are deferred and recorded as dues collected in advance within other current liabilities. Revenue is adjusted to reflect estimates of collectability, including retrospective membership adjustment trends and economic conditions.

B. Significant Accounting Policies (continued)

In the opinion of management, adequate provision has been made in the consolidated financial statements for any adjustments resulting from the respective intermediary reviews. The Company received settlements related to prior years' cost reports and other third-party contracts which resulted in an increase to member revenue of $5,161 and $0 for the years ended December 31, 2014 and 2013, respectively.

Other Revenue, Net

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record technology. Payments under the program are calculated based upon estimated discharges, charity care and other input data and are predicated upon the Company's attainment of program and attestation criteria and are subject to regulatory audit. The Company has opted to follow a grant accounting method, which provides for ratable recognition over the respective attestation period. As a result, management estimated and recognized revenue within other revenue, net of $24,719 and $35,007 for the years ended December 31, 2014 and 2013, respectively. Amounts recognized are subject to change, with such changes impacting the statement of operations in the period in which they occur.

Other revenue, net also includes gains and losses from investments in unconsolidated organizations (which is discussed in Note M), cafeteria revenue, rental income and revenue from other miscellaneous sources.

B. Significant Accounting Policies (continued)

Charity Care

The Company has a policy of treating certain patients regardless of their ability to pay as defined by established policies of the Company. The estimated direct and indirect costs of charity care, quantified as the cost of free or discounted health services provided to persons who cannot afford to pay, was $65,345 and $160,989 for the years ended December 31, 2014 and 2013, respectively. The decrease in charity care is primarily attributable to the increase in Medicaid patients due to the expansion of Medicaid eligibility in the States of Ohio and Kentucky and the resulting decrease in the number of charity patients. Charity care costs are estimated based on multiplying the ratio of costs to gross charges for all payments not attributable to other community benefits programs by the revenue recognized and written-off for health services provided to persons who cannot afford to pay. The Ohio Hospital Care Assurance Program (HCAP) provides some reimbursement to the Company for services provided to qualified persons who cannot afford to pay. The amount of HCAP reimbursements was $27,651 and $39,266 for the years ended December 31, 2014 and 2013, respectively. Charity care amounts are not included in net patient service revenue.

Pension and Other Postemployment Benefits

The Company has several defined benefit pension plans covering the majority of employees who qualify as to age and length of service. The Company funds actuarially determined pension amounts in accordance with a long-term funding policy to ensure the defined benefit pension plans maintain adequate funding over time. In addition, the Company has several defined contribution plans.

Certain market affiliates also provide post-employment healthcare benefits for employees who meet certain age and service requirements and agree to contribute a portion of the cost. It is the Company's policy to fund these post-employment benefit costs as they are incurred.

Excess of Revenue over Expenses

The consolidated statements of operations and changes in net assets include the line excess of revenue over expenses which represents the operating indicator for the Company. Consistent with industry practice, changes in net assets which are excluded from the excess of revenue over expenses may include gain on discontinued operations, changes in net unrealized gains and losses on restricted investments, restricted contributions, distributions to noncontrolling interests, certain pension and other postemployment benefit adjustments, and other miscellaneous items as defined under GAAP.

B. Significant Accounting Policies (continued)

Federal Income Taxes

The Company completed an analysis of its tax positions in accordance with applicable accounting guidance at December 31, 2014 and 2013 and determined that no amounts were required to be recognized in the consolidated financial statements at December 31, 2014 and 2013.

Most of the affiliated entities of the Company are recognized as exempt from federal income tax under Section 501(a) of the Internal Revenue Code as a tax-exempt organization qualifying under Internal Revenue Code Section 501(c)(3). The provision for federal income taxes for other affiliated entities is not significant to the Company.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Reclassification

Certain reclassifications were made to the 2013 consolidated financial statement presentation to conform to the 2014 consolidated financial statement presentation.

Contingencies

During the normal course of business, the Company may become involved in litigation. It is not possible to determine the eventual outcome of any presently unresolved litigation. However, after consultation with legal counsel, management believes that these matters will be resolved without material adverse impact to the consolidated financial position or results of operations of the Company.

B. Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), to clarify revenue recognition principles. This guidance is intended to improve disclosure requirements and enhance the comparability of revenue recognition practices. Improved disclosures under the amended guidance relate to the nature, amount, timing and uncertainty of revenue that is recognized from contracts with customers. This guidance is expected to be effective with reporting periods beginning after December 15, 2016 and will be required to be applied retrospectively (either fully or on a modified approach). Early application of the amendments in ASU 2014-09 is not permitted. The Company is currently evaluating the impact that ASU 2014-09 will have on its consolidated financial statements.

C. Fair Value Measurements

The carrying amount reported in the consolidated balance sheets for current assets (other than investments which are separately disclosed) and current liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. These financial instruments are not required to be marked to fair value on a recurring basis and therefore are not disclosed in the accompanying table.

(Dollar Amounts in Thousands)

C. Fair Value Measurements (continued)

The following table represents the financial instruments measured at fair value on a recurring basis based on the fair value hierarchy as of December 31:

	2014				2013			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash and cash equivalents	**$ 118,171**	**$ –**	**$ –**	**$ 118,171**	$ 151,644	$ –	$ –	$ 151,644
Investments and assets whose use is limited:								
Cash equivalents	**139,510**	**7,700**	**–**	**147,210**	169,916	36,462	–	206,378
Marketable debt securities:								
U.S. government	**129,873**	–	–	**129,873**	60,316	–	–	60,316
U.S. government agencies	–	**46,997**	–	**46,997**	–	19,646	–	19,646
Corporate	–	**118,247**	–	**118,247**	–	114,946	–	114,946
Mortgage-backed	–	**62,223**	–	**62,223**	–	99,684	–	99,684
Asset-backed	–	**44,799**	–	**44,799**	–	17,703	–	17,703
Other	–	**55,933**	–	**55,933**	–	38,485	–	38,485
Marketable equity securities:								
U.S. large cap	**177,521**	–	–	**177,521**	143,935	–	–	143,935
U.S. mid cap	**79,453**	–	–	**79,453**	81,640	–	–	81,640
U.S. small cap	**28,262**	–	–	**28,262**	25,432	–	–	25,432
Foreign	**109,667**	–	–	**109,667**	150,002	–	–	150,002
Exchange traded/mutual funds:								
Equity funds	**135,507**	**64,217**	–	**199,723**	121,236	–	–	121,236
Diversified bond funds	**104,034**	–	–	**104,034**	127,405	15,187	–	142,592
Commingled investment funds	–	**245,233**	–	**245,233**	–	255,023	–	255,023
Total investments and assets whose use is limited	**903,827**	**645,348**	–	**1,549,175**	879,882	597,136	–	1,477,018
Assets whose use is limited under securities lending arrangements	–	**49,976**	–	**49,976**	–	65,741	–	65,741
Total assets at fair value	**$1,021,998**	**$ 695,324**	**–**	**$ 1,717,322**	$ 1,031,526	$ 662,877	$ –	$ 1,694,403
Liabilities								
Interest rate swap agreements liability	**$ –**	**$ –**	**$ 40,590**	**$ 40,590**	$ –	$ –	$ 29,508	$ 29,508
Contingent consideration	**–**	**–**	**54,757**	**54,757**	–	–	62,467	62,467
Total liabilities at fair value	**$ –**	**$ –**	**$ 95,347**	**$ 95,347**	$ –	$ –	$ 91,975	$ 91,975

(Dollar Amounts in Thousands)

C. Fair Value Measurements (continued)

The following table represents financial instruments at fair value and at other than fair value which reconcile to the consolidated balance sheets of the Company as of December 31:

	2014			2013		
	Financial Instruments at Fair Value	**Financial Instruments at Other Than Fair Value**	**Total**	**Financial Instruments at Fair Value**	**Financial Instruments at Other Than Fair Value**	**Total**
Assets						
Cash and cash equivalents	**$ 118,171**	**$ –**	**$ 118,171**	$ 151,644	$ –	$ 151,644
Investments	**51,000**	**–**	**51,000**	116,122	–	116,122
Assets whose use is limited	**1,498,175**	**762,970**	**2,261,145**	1,360,896	802,259	2,163,155
Assets whose use is limited under securities lending arrangements	**49,976**	**–**	**49,976**	65,741	–	65,741
Total assets	**$1,717,322**	**$ 762,970**	**$ 2,480,292**	$1,694,403	$ 802,259	$2,496,662
Liabilities						
Interest rate swap agreements liability	**$ 40,590**	**$ –**	**$ 40,590**	$ 29,508	$ –	$ 29,508
Other long term liabilities	**54,757**	**113,179**	**167,936**	62,467	112,873	175,340
Total liabilities	**$ 95,347**	**$ 113,179**	**$ 208,526**	$ 91,975	$ 112,873	$ 204,848

Cash and Cash Equivalents, Investments and Assets Whose Use is Limited

The Company's cash and cash equivalents, investments and assets whose use is limited, with the exception of alternative investments, which are accounted for using the equity method of accounting, are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations or alternative pricing sources, primarily matrix pricing, with reasonable levels of price transparency. Matrix pricing, primarily used for marketable debt securities, is based on quoting prices for securities with similar coupons, ratings and maturities, rather than on specific bids and offers for the specific security. The types of financial instruments based on quoted market prices in active markets (over the counter) include most U.S. government marketable debt securities, marketable equity securities, exchange traded/mutual funds, and money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy. The Company does not adjust the quoted market price for such financial instruments.

C. Fair Value Measurements (continued)

The types of financial instruments valued based on quoted market prices in markets that are not active, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency include U.S. government agency, corporate, mortgage-backed, asset-backed and other marketable debt securities, certain thinly traded marketable equity securities, exchange traded/mutual funds and commingled investment funds.

Such financial instruments are generally classified within Level 2 for the fair market value hierarchy. Primarily all of the Company's marketable debt securities, including mortgage-backed and asset-backed obligations, are actively traded and the recorded fair value reflects current market conditions. However, due to the inherent volatility in the investment market there is at least a possibility that recorded investment values may change by a material amount in the near term. The commingled investments funds are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the commingled investments funds at December 31, 2014 and 2013 based on the fact that the commingled investment funds are audited and accounted for at fair value by the administrators of the respective commingled investment funds. There are no restrictions on the ability of the Company to redeem any of the commingled investment funds at December 31, 2014 or 2013.

Following is the summary of the inputs and valuation techniques as of December 31, 2014 and 2013 used for valuing Level 2 financial instruments:

Financial Instrument	Input	Valuation
Cash equivalents	Broker/Dealer	Market
Marketable debt securities:		
U.S. government agencies	Broker/Dealer	Market
Corporate	Broker/Dealer	Market
Mortgage-backed	Matrix	Market/Income
Asset-backed	Matrix	Market/Income
Other	Matrix	Market/Income
Exchange traded/mutual funds	NAV	Market
Commingled investment funds	NAV	Market

C. Fair Value Measurements (continued)

Assets Whose Use is Limited Under Securities Lending Arrangements

Assets whose use is limited under securities lending arrangement consists of the Pooled Fund and is not valued based on a quoted market price. The Pooled Fund, which is structured similar to that of a money market financial instrument, consists primarily of short-term marketable debt securities and cash equivalents, which are stated at fair value, as determined by the administrator of the Pooled Fund, based on readily determinable market values of the underlying securities. The underlying investments within the Pooled Fund are transparent and allow for observable market inputs. As such, the asset whose use is limited under securities lending arrangements is classified within Level 2.

Interest Rate Swap Agreements

The Company participates in interest rate swap agreements to manage its exposures to fluctuations in interest rates and overall long-term debt portfolio. The Company's interest rate swap agreements are not traded on an exchange. The valuation of interest rate swap agreements is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap agreement based on the respective fixed rates and the London Interbank Offered Rate (LIBOR) (or Securities Industry and Financial Markets Association (SIFMA)) yield curve adjusted for the spread between the LIBOR (or SIFMA) yield curve and the federal funds rate for collateralized portions of the liability. The valuation of the Company's interest rate swap agreements is performed by the Company's counterparty and validated through the use of independent third-party valuation, including the unobservable inputs used in the calculation. Management monitors the changes in the Company's interest rate swap agreements period to period and ensures all significant changes are disclosed in the consolidated financial statements.

(Dollar Amounts in Thousands)

C. Fair Value Measurements (continued)

The following is a summary of key inputs used to determine the fair value for each interest rate swap agreements as of December 31:

Interest Rate	Variable Rate Curve		Fixed Rate		Discount Rate	
Swap Agreement	2014	2013	2014	2013	2014	2013
December 2006	**LIBOR**	LIBOR	**3.63%**	3.63%	**Avg of LIBOR curve**	Avg of LIBOR curve
December 2007	**SIFMA**	SIFMA	**N/A**	N/A	**Avg of SIFMA curve**	Avg of SIFMA curve

The discounted cash flow analysis reflects the contractual terms of the interest rate swap agreement, including the period to maturity, and uses observed market-based inputs, including interest rate curves and implied volatilities. Valuation adjustments are required to be considered in the determination of fair value. This includes amounts to reflect counterparty credit quality and liquidity risk. Although the Company has determined that certain of the inputs used to value its interest rate swap agreements fall within Level 2 of the fair value hierarchy, certain inputs and the credit valuation adjustment associated with the interest rate swap agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company or the counterparty. As a result, the Company has determined that its interest rate swap agreements in their entirety are classified in Level 3 of the fair value hierarchy. Increases (decreases) in any of those inputs, specifically assumptions related to the LIBOR or SIFMA curves, in isolation would result in a lower (higher) fair value measurement that could be material to the consolidated financial statements. However, based on historical experience, the inputs, including the LIBOR and SIFMA curves, typically change gradually over time.

(Dollar Amounts in Thousands)

C. Fair Value Measurements (continued)

The following table summarizes the activity related to interest rate swap agreements having fair value measurements based on significant unobservable inputs (Level 3) as of:

	Interest Rate Swap Agreements
Fair value at January 1, 2013	$ (103,221)
Realized settlement loss	(21,447)
Unrealized gains	98,904
Unrealized losses	(3,744)
Fair value at December 31, 2013	(29,508)
Realized settlement loss	**(21,975)**
Unrealized gains	**22,811**
Unrealized losses	**(11,918)**
Fair value at December 31, 2014	**$ (40,590)**

All realized and unrealized interest rate swap agreements (loss) gain, including payments to and from a counterparty, are presented net and included in the consolidated statements of operations and changes in net assets as other (loss) income.

(Dollar Amounts in Thousands)

C. Fair Value Measurements (continued)

Contingent consideration due to the previous owners/corporate members of certain acquired organizations is required to be recorded at fair value on a recurring basis under applicable accounting guidance. The Company's contingent consideration consists of the following as of December 31:

	2014	**2013**
Payable to Jewish Foundation	**$ 9,282**	$ 18,950
Payable to previous corporate member of KFHPO	**45,475**	43,517
	$ 54,757	$ 62,467

Payable to Jewish Foundation

The contingent payable to Jewish Foundation in connection with the 2010 purchase of The Jewish Hospital of Cincinnati, Ohio (Jewish Hospital), an Ohio nonprofit corporation located in Cincinnati, Ohio, is based on certain future operating targets of Jewish Hospital. The fair value of the contingent payable to Jewish Foundation is based on unobservable inputs including internal estimates of future cash flows and discounted to estimated net present value using a discount rate of 2.6% at both December 31, 2014 and 2013. Increases (decreases) in any of the unobservable inputs in isolation would result in lower (higher) fair value measurement. The value of the Company's contingent payable to Jewish Foundation is performed by management on a quarterly basis based on widely accepted valuation methodologies (discounted cash flows). Management regularly validates its unobservable inputs through historical review in the form of the Jewish Hospital budget to actual analysis. Based on the result of the budget to actual analysis, the unobservable inputs used in the fair value determination may be revised. Management monitors the changes in the Company's contingent payable to Jewish Foundation period to period and ensures all significant changes are disclosed in the consolidated financial statements. In December, 2014, the Jewish Foundation provided a contribution to the Jewish Hospital in the form of forgiveness of $10,000 of the contingent consideration. The contribution is restricted for the purpose of capital improvements at the Jewish Hospital and was recorded as a reduction to the contingent consideration and an increase to temporarily restricted net assets.

(Dollar Amounts in Thousands)

C. Fair Value Measurements (continued)

The following table summarizes the activity related to the contingent payment to Jewish Foundation having fair value measurements based on significant unobservable inputs (Level 3) as of:

Fair value at January 1, 2013	$ (18,283)
Accretion expense	(667)
Fair value at December 31, 2013	(18,950)
Accretion expense	**(332)**
Contribution from Jewish Foundation	**10,000**
Fair value at December 31, 2014	**$ (9,282)**

Accretion expense related to the contingent payable to the Jewish Foundation is included within the excess of revenue over expenses.

Payable to Previous Corporate Member of KFHPO

The contingent payable to the previous corporate member of KFHPO, as disclosed in Note A, is based on certain future operating targets of HealthSpan Integrated Care. The fair value of the contingent payable to the previous corporate member of KFHPO is based on unobservable inputs including internal estimates of the net present value of the liability based on estimated future cash flows, discounted using a discount rate of 2.4% and 2.8% at December 31, 2014 and 2013, respectively. Increases (decreases) in any of the unobservable inputs in isolation would result in lower (higher) fair value measurement. The value of the contingent payable to the previous corporate member of KFHPO is performed by management based on widely accepted valuation methodologies (discounted cash flows). Management will validate its unobservable inputs through historical review in the form of the HealthSpan Integrated Care budget to actual analysis. Based on the result of this budget to actual analysis, the unobservable inputs used in the fair value determination may be revised. Management will monitor the changes in the contingent payable to the previous corporate member of KFHPO period to period and ensure all significant changes are disclosed in the consolidated financial statements.

C. Fair Value Measurements (continued)

The following table summarizes the activity related to the contingent payable to the previous corporate member of KFHPO having fair value measurements based on significant unobservable inputs (Level 3) as of:

Fair value at December 31, 2013	$ (43,517)
Accretion expense	**(1,958)**
Fair value at December 31, 2014	$ **(45,475)**

Accretion expense related to the contingent payable to the previous corporate member of KFHPO is included within the excess of revenue over expenses.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the consolidated balance sheet dates.

The Company's non-financial assets and liabilities not permitted or required to be measured at fair value on a recurring basis typically relate to assets and liabilities acquired in a business combination and long-lived assets held for sale. The Company is required to provide additional disclosures about fair value measurements as part of the consolidated financial statements for each major category of assets and liabilities measured at fair value on a non-recurring basis. In general, non-recurring fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities, which generally are not applicable to non-financial assets and liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as definitive sales agreements, appraisals or established market values of comparable assets, and historical cash payment trends. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability, such as internal estimates of future cash flows.

(Dollar Amounts in Thousands)

C. Fair Value Measurements (continued)

On October 1, 2013, HSP through a membership substitution became the sole corporate member of HealthSpan Integrated Care (Note A). The membership substitution was accounted for using the purchase method of accounting which requires that the assumed or identified assets and liabilities be initially recorded at fair value (non-recurring). The following table presents the assumed or identified assets and liabilities of HealthSpan Integrated Care as of October 1, 2013, and indicates the fair value hierarchy of the valuation techniques HSP utilized to determine such estimated fair values.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	$ 31,390	$ –	$ –	$ 31,390
Current assets	–	28,066	–	28,066
Assets whose use is limited	400	–	–	400
Property and equipment, net	–	78,063	–	78,063
Identifiable intangible assets	–	–	6,500	6,500
Total assets	$ 31,790	$ 106,129	$ 6,500	$ 144,419
Current liabilities	$ –	$ 39,414	$ –	$ 39,414
Accrued medical claims expense and related liabilities	–	–	26,954	26,954
Contingent consideration	–	–	43,517	43,517
Long term liabilities	–	1,215	–	1,215
Total liabilities	$ –	$ 40,629	$ 70,471	$ 111,100

C. Fair Value Measurements (continued)

Following is the summary of the inputs and valuation methodology used for valuing Level 2 and Level 3 non-financial assets and liabilities:

Non-Financial Assets and Liabilities	Input	Valuation Methodology
Current assets	Estimate of replacement cost	Cost
Property and equipment, net	Estimate of replacement cost	Cost
Identifiable intangible assets	Discounted cash flows	Income
Current liabilities	Estimate of replacement cost	Cost
Accrued medical claims expense and related liabilities	Historical claims experience	Income
Contingent payment	Discounted cash flows	Income
Long term liabilities	Estimate of replacement cost	Cost

Management utilizes third-party valuation firms to assist in the determination of purchase accounting fair values, including those considered Level 3 measurements. Management ultimately oversees the third-party valuation firms to ensure that the transaction specific assumptions are appropriate for the Company. For Level 3 measurements, when observable prices are not available, the valuation might use one or more valuation techniques such as the cost approach or the income approach for which sufficient and reliable data is available. Within Level 3, the use of the cost approach generally consists of using historical purchase data or similar transaction cost data while the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. Significant increases (decreases) in any of those observable inputs in isolation would result in a significantly lower (higher) fair value measurement.

(Dollar Amounts in Thousands)

D. Long-Term Debt

The following is a summary of the Company's long-term debt as of December 31:

Long-Term Debt	Interest Rate	2014	2013
Master Trust Indenture Obligations – Hospital Facilities Revenue and Revenue Refunding Bonds:			
Mercy Health Series 2002B Auction Rate Bonds	Variable: Average 0.58% at December 31, 2014	**$ 51,825**	$ 51,825
Mercy Health Series 2003 C-1 and C-2 Converted Fixed Rate Bonds	5.00%	**166,500**	175,500
Mercy Health Series 2003 C-3 and C-4 Auction Rate Bonds	Variable: Average 0.59% at December 31, 2014	**5,400**	6,700
Mercy Health Series 2006 Converted Fixed Rate Bonds	4.50% to 5.25%	**156,350**	159,850
Mercy Health Series 2008 Variable Rate Demand Bonds	Variable: Average 0.80% at December 31, 2014	**300,000**	300,000
Mercy Health Series 2010A/B Fixed Rate Bonds	3.50% to 5.25%	**411,285**	435,285
Mercy Health Series 2010C/D Variable Rate Demand Bonds	Variable: Average 0.78% at December 31, 2014	**193,000**	195,000
Mercy Health Series 2011 Variable Rate Bonds	Variable: 1.00% at December 31, 2014	**50,730**	63,130
Mercy Health Series 2012A Fixed Rate Bonds	2.25% to 5.00%	**273,620**	273,620
Mercy Health Series 2012B Variable Rate Demand Bonds	Variable: 0.04% at December 31, 2014	**100,000**	100,000
Total Master Trust Indenture Obligations		**1,708,710**	1,760,910
Other debt	Various	**19,771**	26,155
Capital lease obligations	Various	**21,015**	22,503
		1,749,496	1,809,568
Original issue net premium		**30,748**	32,472
Less current portion of long-term debt		**(262,734)**	(160,161)
		$ 1,517,510	$ 1,681,879

(Dollar Amounts in Thousands)

D. Long-Term Debt (continued)

The following is a schedule of future minimum payments for the principal repayment of master trust indenture obligations, other debt and capital lease obligations based on scheduled maturities at December 31:

Period	Master Trust Indenture Obligations	Other Debt	Capital Lease Obligations
2015	$ 54,830	$ 6,309	$ 2,698
2016	57,995	2,406	2,692
2017	57,930	1,020	2,525
2018	57,685	849	2,562
2019	54,665	588	2,591
Thereafter	1,425,605	8,599	14,805
Total minimum payments	$ 1,708,710	$ 19,771	27,873
Less amounts representing interest			(6,858)
Present value of minimum lease payments			21,015
Less current portion			(1,595)
			$ 19,420

Interest payments for the year ended December 31, 2014 and 2013 were $57,208 and $59,777, respectively. The Company capitalized interest of $2,128 and $12,263 for the years ended December 31, 2014 and 2013, respectively.

The Company's master trust indenture (the MTI) provides that Mercy Health is the sole obligor on all outstanding indebtedness incurred under the MTI. Substantially all tax-exempt bond obligations of the Company have been evidenced by obligations issued under the MTI.

D. Long-Term Debt (continued)

Mercy Health's MTI obligations mature at various dates through 2042 and are subject to optional and mandatory redemption features. While only Mercy Health is obligated under the terms of the MTI, Mercy Health has covenanted to cause its controlled market affiliates to transfer such funds to Mercy Health as necessary to pay amounts due under the MTI. Controlled market affiliates of Mercy Health have entered into agreements obligating them to make these transfers at the request of Mercy Health.

The Company has provided, through a supplemental master trust indenture, an assignment of the Company's rights under the controlled market affiliate loan agreements for the transfer of gross revenue to the master trustee for the benefit of all MTI holders in the event of a default. This assignment remains in effect as long as insured tax-exempt bond obligations remain outstanding.

The Company is subject to certain restrictive covenants under the MTI, municipal bond insurance policies, revolving credit agreements, reimbursement agreements, and for irrevocable letters of credit at December 31, 2014 and 2013. The Company was in compliance with all restrictive covenants at December 31, 2014 and 2013.

Outstanding tax-exempt bond obligations that were insured under municipal bond insurance policies were $380,075 at December 31, 2014 ($393,875 at December 31, 2013). Under terms of these policies, the insurer guarantees the Company's payment of principal and interest.

The Company's variable rate tax-exempt bond obligations were comprised of $224,000 variable rate demand bonds with letter of credit support, $319,730 variable rate bonds held under direct purchase agreements with certain financial institutions, $100,000 variable rate demand bonds supported by the Company's liquidity and $57,225 auction rate securities at December 31, 2014 ($225,000, $333,130, $100,000 and $58,525, respectively, at December 31, 2013). The Company's risk associated with auction rate securities is limited to interest rate risk as the auction rate securities cannot be put back to the Company by bondholders.

The Company's dedicated liquidity facilities and direct placement agreements on variable rate demand bonds have expiration dates that extend from July 2015 to April 2020, and their respective term-out repayment provisions extend beyond the subsequent fiscal year.

D. Long-Term Debt (continued)

The direct placement agreement for the Series 2008 CDE tax-exempt bond obligations in the amount of $100,000 is due to expire within the next 12 months. Accordingly, the outstanding par amount of these tax-exempt bond obligations have been classified within the current portion of long-term debt. Management has expressed its intention to seek renewal of this direct placement agreement or provide a similar support vehicle prior to its expiration in July 2015.

The Company routinely maintains a revolving credit agreement for purposes of working capital support or capital asset acquisition. This revolving credit agreement has a commitment amount of $200,000 and is secured by the MTI. This agreement expires on December 16, 2016. No amounts were borrowed during the year ended December 31, 2014 or 2013 and no amounts were outstanding under the revolving credit agreement at December 31, 2014 or 2013.

The fair value of outstanding MTI obligations (excluding capital lease obligations and other debt) was $1,804,000 at December 31, 2014 ($1,798,000 at December 31, 2013). Management has determined the carrying amount of the Company's variable rate demand bonds and auction rate bonds are representative of fair value as the interest rates associated with these tax-exempt bond obligations are set by market participants. The fair value of the Company's fixed rate tax-exempt bond obligations is determined by applying the yield of openly marketable bonds that have substantially the same characteristics as the tax-exempt bond obligations issued for the benefit of the Company (i.e., bond rating, call provisions, maturity, etc.) to outstanding amounts of the Company's tax-exempt bond obligations. The determination of fair value of the Company's outstanding MTI obligations is consistent with a Level 2 measurement under the fair value hierarchy.

(Dollar Amounts in Thousands)

E. Derivatives and Interest Rate Swap Agreements

The Company has entered into derivative transactions in the form of interest rate swap agreements which it uses to manage the relative amounts of its fixed and variable rate long-term debt exposure. The interest rate swap agreements are contracts between the Company and a third-party (counterparty) that provide for economic payments between parties based on specified notional amounts and defined interest rates. The risk of interest swap agreements is estimated and managed on an ongoing basis by the Company. The interest rate swap agreements are exposed to counterparty credit risk, which is the risk that contractual obligations of the counterparty will not be fulfilled. Collateralization requirements mitigate some of the credit risk associated with the Company's interest rate swap agreements.

The following table includes the notional and valuation amounts of the Company's interest rate swap agreements as of December 31:

Interest Rate Swap Agreement	Transaction Type	Payment Rate/Basis	Termination Date	Notional Amount 2014	Notional Amount 2013	Valuation Amount 2014	Valuation Amount 2013
December 2006	Pay Fixed	3.63%	2033	**$ 269,200**	$ 389,200	**$ (56,567)**	$ (57,243)
December 2007	Constant Maturity	N/A	2027	**250,000**	250,000	**14,867**	26,785
Credit valuation adjustment						**1,110**	950
						$ (40,590)	$ (29,508)

All changes in the fair value of the Company's interest rate swap agreements are recognized in other (loss) income in the consolidated statements of operations and changes in net assets. The differences between settlement payments made and settlement payments received on all interest rate swap agreements are included in other (loss) income on the consolidated statements of operations and changes in net assets in realized and unrealized interest rate swap agreements (loss) gain. The net payments paid were $6,904 and $11,529 for the years ended December 31, 2014 and 2013, respectively.

E. Derivatives and Interest Rate Swap Agreements (continued)

The Company has undertaken a systematic reduction of its fixed payer interest rate swap agreement exposure. Through December 31, 2014, the Company has canceled $304,700 notional fixed payer interest rate swap agreements. Cancelations of notional amounts of fixed payer interest rate swap agreements resulted in realized settlement losses of $21,975 and $21,447 for the years ended December 31, 2014 and 2013, respectively, which have been recognized in other (loss) income in the consolidated statements of operations and changes in net assets.

The Company's interest rate swap agreements include certain collateralization requirements based on the market value of these transactions. The amount required for collateral is determined daily based on the current market value of the interest rate swap agreements. All of the Company's interest rate swap agreements outstanding at December 31, 2014 and 2013 were issued pursuant to a single International Swaps and Derivatives Association, Inc. ("ISDA") agreement with a single counterparty. Therefore, all interest rate swap agreements are viewed under a master netting arrangement to determine the aggregate amount of collateral to be posted or received by the Company.

The Company has posted collateral with a designated custodian of $11,511 at December 31, 2014 ($1,641 at December 31, 2013) commensurate with the valuation of the interest rate swap agreements. All collateral posted is in the form of cash and cash equivalents and is shown separately on the consolidated balance sheets as assets whose use is limited – restricted for interest rate swap agreements collateral requirements. Interest earned while collateralized funds are held by the custodian is shown in other (loss) income on the consolidated statements of operations and changes in net assets.

F. Professional Liability and General Insurance

The Company's hospital professional liability (HPL) and hospital general liability (HGL) exposures are covered primarily through the Captive. The Captive is an offshore insurance company domiciled in the Cayman Islands and 100% owned by the Company. In addition to providing HPL and HGL coverage to its insureds, the Captive provides policies for certain employed physician, commercial insurance deductibles, stop-loss medical coverage, the Company's fleet property damage coverage, and through a segregated insurance cell, stop-loss on HSP's member claims. Commercial excess insurance is provided by CNA, Zurich American Insurance Company, Endurance and ACE.

F. Professional Liability and General Insurance (continued)

The liability represents the estimated ultimate cost of all asserted and unasserted claims incurred through the consolidated balance sheet date. The reserve for unpaid losses and loss adjustment expenses are estimated using individual case-based valuations, statistical analyses and the expertise of an independent actuary. The HPL and HGL, employed physician, commercial insurance deductible, stop-loss medical coverage, and the Company's fleet property damage coverage accrual of $108,334 and $108,112 at December 31, 2014 and 2013, respectively, is included in self-insurance liabilities in the consolidated balance sheets. Any exposure maintained by the Captive related to stop loss on HSP'S member claims is eliminated in consolidation. The Company recorded a decrease in insurance expense of approximately $7,000 and $13,000 in 2014 and 2013, respectively, related to changes in actuarial estimates reflecting lower claim activity, closed claims, tort reform and other environmental factors and improved claims resolution history. As the actuarially determined accrual is an estimate, the possibility exists that the estimate could be revised by a material amount in the near term. Management believes that the Captive is adequately funded to provide for all asserted and unasserted claims at December 31, 2014 and 2013.

As part of the sale of Pennsylvania and Tennessee, the Company retained risk for professional liability related to services performed in prior years on an occurrence basis, and has included an estimate for the ultimate cost of asserted and unasserted claims related to those markets. Changes in the estimated liabilities and claims settlement expense for Pennsylvania and Tennessee will be recorded as part of discontinued operations in the period in which losses are recognized, or in which changes in estimated losses are projected, as actuarially determined.

The Company's workers' compensation liability is $24,033 and $26,927 at December 31, 2014 and 2013, respectively, and is included in self-insurance liabilities in the consolidated balance sheets. The discount rate used to compute the workers' compensation liability was 2.0% at both December 31, 2014 and 2013. Commercial excess insurance for the workers' compensation program is provided by Safety National Casualty Corporation.

(Dollar Amounts in Thousands)

G. Guarantees and Other Long-Term Obligations

The Company has recorded a liability for the value, which is primarily determined using the net present value of estimated future cash flows, of certain guarantees of approximately $18,000 and $19,000 as of December 31, 2014 and 2013, respectively. This amount is included in other long-term liabilities.

The following is a schedule of aggregate future minimum payments under non-cancelable operating leases as of December 31, 2014:

2015	$ 40,681
2016	29,827
2017	22,029
2018	16,211
2019	11,908
Thereafter	22,862
	$ 143,518

(Dollar Amounts in Thousands)

H. Cash and Cash Equivalents, Investments, Funds Held By Trustees and Assets Whose Use is Limited

The following is a summary of the carrying amounts of the Company's cash and cash equivalents, investments and assets whose use is limited (excluding assets whose use is limited under securities lending arrangements) as of December 31:

	2014	2013
Cash and cash equivalents	**$ 265,381**	$ 358,022
Marketable debt securities:		
U.S. government	**129,873**	60,316
U.S. government agencies	**46,997**	19,646
Corporate	**118,247**	114,946
Mortgage-backed	**62,223**	99,684
Asset-backed	**44,799**	17,703
Other	**55,933**	38,485
Marketable equity securities:		
U.S. large cap	**177,521**	143,935
U.S. mid cap	**79,453**	81,640
U.S. small cap	**28,262**	25,432
Foreign	**109,667**	150,002
Exchange traded/mutual funds:		
Equity funds	**199,723**	121,236
Diversified bond funds	**104,034**	142,592
Commingled investment funds	**245,233**	255,023
Alternative investments:		
Hedge funds	**459,886**	502,508
Private equity funds	**294,687**	261,052
Limited partnerships/companies	**8,397**	38,699
	$ 2,430,316	$ 2,430,921

H. Cash and Cash Equivalents, Investments, Funds Held By Trustees and Assets Whose Use is Limited (continued)

At December 31, 2014, approximately $2,424,000 ($2,399,000 at December 31, 2013) of the Company's cash and cash equivalents, investments and assets whose use is limited, are centrally managed by the Mercy Health Home Office. The Company maintains diversification in its investment portfolio by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles and approaches. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit risk at December 31, 2014 and 2013.

Funds restricted by donors for charitable purposes included in cash and cash equivalents, investments and assets whose use is limited was $15,266 and $21,535 at December 31, 2014 and 2013, respectively.

The Company, through its professional investment managers, enters into derivative transactions (primarily in the form of money market, equity index and government futures) which are used in conjunction with the Company's investment portfolio to economically hedge various investment risks. At December 31, 2014 and 2013, the notional amount of these derivative instruments was $85,618 and $650,120, respectively. The fair value of these derivative instruments was approximately zero at December 31, 2014 and 2013, as the net position of these derivative instruments are generally settled daily with the amount recognized in other, primarily investment income in the consolidated statements of operations.

At December 31, 2014, the Company has committed capital yet to be called of approximately $251,000 ($159,000 at December 31, 2013) to private equity funds over the next one to three years.

(Dollar Amounts in Thousands)

H. Cash and Cash Equivalents, Investments, Funds Held By Trustees and Assets Whose Use is Limited (continued)

Interest and dividend earnings (net of expenses), net realized gains on investments and the net change in unrealized (losses) gains on investments are considered investment income and are included in other, primarily investment income on the consolidated statements of operations. The following is a summary of other, primarily investment income for the years ended December 31:

	2014	2013
Interest and dividend earnings (net of expenses)	**$ 33,210**	$ 22,345
Net realized gains on investments	**76,061**	95,385
Net change in unrealized (losses) gains on investments	**(32,236)**	49,413
Other, net	**14,115**	12,110
	$ 91,150	$ 179,253

Net realized gains on investments includes equity (loss) income from alternative investments of ($24,062) and $30,323 for the years ended December 31, 2014 and 2013, respectively. Equity (loss) income from alternative investments is recorded using the equity method of accounting (other than fair value).

I. Property and Equipment

The following is a summary of the Company's property and equipment, net as of December 31:

	2014	2013
Land	**$ 170,173**	$ 166,850
Land improvements	**61,504**	60,540
Buildings and fixed equipment	**2,883,761**	2,842,711
Moveable equipment	**1,795,846**	1,743,062
Computer software	**392,296**	341,395
	5,303,580	5,154,558
Less accumulated depreciation	**(3,008,558)**	(2,918,758)
	2,295,022	2,235,800
Construction in progress	**94,134**	107,257
	$ 2,389,156	$ 2,343,057

(Dollar Amounts in Thousands)

I. Property and Equipment (continued)

At December 31, 2014 and 2013, total unamortized computer software was $163,083 and $148,532, respectively. The amortization expense for computer software recorded in depreciation and amortization expense on the consolidated statements of operations and changes in net assets was $37,262 and $32,693 for the years ended December 31, 2014 and 2013, respectively.

The Company has entered into certain transactions with developers to construct medical office buildings or other structures on land which is owned by the Company. The Company will lease portions of these buildings from the developer in the future. Under applicable accounting guidance, the Company has determined that it maintains certain risk of ownership on these transactions and as a result has recorded property and equipment, net and a related liability, which is included in other long-term liabilities, of $39,842 and $41,612 at December 31, 2014 and 2013, respectively, related to these transactions.

As of December 31, 2014, the Company is contractually obligated for construction projects totaling $16,199 at current construction cost levels. It is expected that all of these costs will be incurred in the next twelve months. The Company will finance these construction projects through the use of tax-exempt bond obligations proceeds, assets whose use is limited and operating activity.

J. Functional Expenses

The Company provides general health care services to residents within its various geographic locations. Expenses related to providing these services are as follows for the years ended December 31:

	2014	2013
Health care services	**$ 3,659,879**	$ 3,058,191
General and administrative	**718,874**	760,672
	$ 4,378,753	$ 3,818,863

(Dollar Amounts in Thousands)

K. Unsponsored Community Benefit – Unaudited

The following is a summary of the Company's community service as measured by services to the poor and benefits provided to the broader community. The summary has been prepared in accordance with the Catholic Health Association of the United States' (CHA) document, *A Guide for Planning and Reporting Community Benefit, 2012 Edition*. The following represents unsponsored community benefit expense at cost for the years ended December 31:

	2014	2013
Benefits for the poor:		
Traditional charity care	**$ 40,617**	$ 121,723
Unpaid costs of public programs	**227,946**	149,893
Community health services	**10,486**	12,172
Subsidized health services	**1,730**	10,354
Financial and in-kind donations	**1,756**	1,656
Community building activities	**2,118**	4,090
Total quantifiable benefits for the poor	**284,653**	299,888
Benefits for the broader community:		
Community health services	**4,035**	4,250
Health professional education and research	**29,050**	32,334
Subsidized health services	**22,514**	29,660
Financial and in-kind donations	**1,812**	1,823
Community building activities	**3,869**	4,958
Community benefit operations	**240**	473
Total quantifiable benefits for the broader community	**61,520**	73,498
Total quantifiable community benefits	**$ 346,173**	$ 373,386
Percent of total expenses	**7.9%**	9.8%

Benefits include the provision of health services to uninsured persons who cannot afford to pay for their care, participation in government programs for low income persons that reimburse services at less than cost, education of healthcare professionals, community health education, activities to identify and manage chronic health conditions and other healthcare and community supportive services.

(Dollar Amounts in Thousands)

L. Defined Benefit Pension Plans and Other Postemployment Benefits

The Company recognizes in the consolidated balance sheets the funded status of its defined benefit pension and other postemployment plans (collectively, referred to as the Plans), measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for defined benefit pension plans and accumulated benefit obligation for other postemployment benefit plans). Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets.

The following is a summary of the components of the change in benefit obligation and plan assets for the Plans as of December 31:

	Pension Benefits		**Postemployment Benefits**	
	2014	**2013**	**2014**	**2013**
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 1,528,357**	$ 1,664,900	**$ 24,505**	$ 26,028
Service cost	**16,850**	52,126	**752**	740
Interest cost	**69,340**	59,805	**993**	867
Curtailments	**(986)**	–	**–**	–
Settlements	**(21,126)**	(7,986)	**–**	–
Amendments	**–**	(6,791)	**–**	–
Actuarial gains	**(9,379)**	(13,791)	**(1,211)**	(56)
Benefits paid	**(67,290)**	(75,332)	**(1,917)**	(1,682)
Change in mortality assumptions	**106,733**	–	**–**	–
Change in discount rate	**143,660**	(144,574)	**553**	(1,392)
Benefit obligation at end of year	**1,766,159**	1,528,357	**23,675**	24,505
Change in plan assets				
Fair value of plan assets at beginning of year	**1,469,581**	1,441,948	**–**	–
Actual return on plan assets	**148,857**	87,485	**–**	–
Contributions	**26,376**	23,951	**1,917**	1,682
Benefit distribution at settlement	**(21,126)**	(8,471)	**–**	–
Benefits paid	**(67,290)**	(75,332)	**(1,917)**	(1,682)
Fair value of plan assets at end of year	**1,556,398**	1,469,581	**–**	–
Under funded status	**$ (209,761)**	$ (58,776)	**$ (23,675)**	$ (24,505)

(Dollar Amounts in Thousands)

L. Defined Benefit Pension Plans and Other Postemployment Benefits (continued)

Settlements of $21,126 and $7,986 were recognized during the years ended December 31, 2014 and 2013, respectively. During the year ended December 31, 2014, settlements of $14,689 and $3,621, respectively, related to the defined benefit pension plans of Cincinnati and Pennsylvania, while $5,085 related to the defined benefit pension plans of Pennsylvania during the year ended December 31, 2013.

During the year ended December 31, 2014, curtailments totaling $986 were recorded for one of the Company's defined benefit pension plans due to the adoption of a plan change. During the year ended December 31, 2013, certain of the Company's Plans were frozen, resulting in curtailments totaling $28,388, which was offset by existing net losses included in unrestricted net assets.

Additionally, during the year ended December 31, 2013, retrospective amendments to certain plans reduced the benefit obligation by $21,597 and resulted in an increase to the prior service credit included in unrestricted net assets.

Amounts recognized in the consolidated financial statements consist of the following as of December 31:

	Pension Benefits		Postemployment Benefits	
	2014	**2013**	**2014**	**2013**
Retirement assets	**$ 2,072**	$ 27,856	**$ –**	$ –
Current liabilities	**–**	–	**(1,911)**	(1,895)
Retirement liabilities	**(211,833)**	(86,632)	**(21,764)**	(22,610)
Net amount recognized	**$ (209,761)**	$ (58,776)	**$ (23,675)**	$ (24,505)

(Dollar Amounts in Thousands)

L. Defined Benefit Pension Plans and Other Postemployment Benefits (continued)

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic benefit cost for the years ended December 31:

	Pension Benefits		Postemployment Benefits	
	2014	**2013**	**2014**	**2013**
Net prior service (cost) credit	**$ (410)**	$ 322	**$ 329**	$ 280
Net actuarial (loss) gain	**(484,666)**	(310,622)	**2,313**	2,083
Net amount unrecognized	**(485,076)**	(310,300)	**2,642**	2,363
Cumulative excess (shortfall) of employer contributions over net periodic benefit cost	**275,315**	251,524	**(26,317)**	(26,868)
	$ (209,761)	$ (58,776)	**$ (23,675)**	$ (24,505)

Net actuarial (loss) gain is amortized as a component of net periodic benefit cost, only if the losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. Net prior service (cost) credit is amortized on a straight line basis over the estimated life of the Plan's participants. The net prior service (cost) credit and net actuarial (loss) gain included in unrestricted net assets expected to be recognized as a gain (loss) in net periodic benefit cost during the year ending December 31, 2015 is $767 and $(17,436), respectively.

The following amounts related to pension and other postemployment benefit activity has been recognized as the change in unrestricted net assets for the years ended December 31:

	2014	**2013**
Amortization of prior service credit	**$ (732)**	$ (10,242)
Prior service cost	**–**	(21,597)
Net actuarial (loss) gain	**(189,706)**	175,896
Amortization of net actuarial gain	**15,663**	26,807
	(174,775)	170,864
Other postemployment benefit changes	**(279)**	1,663
	$ (175,054)	$ 172,527

(Dollar Amounts in Thousands)

L. Defined Benefit Pension Plans and Other Postemployment Benefits (continued)

The following amounts are a summary of the components of net periodic benefit cost for the Plans for the years ended December 31:

	Pension Benefits		Postemployment Benefits	
	2014	**2013**	**2014**	**2013**
Service cost	**$ 16,850**	$ 52,126	**$ 752**	$ 740
Interest cost	**69,340**	59,805	**993**	867
Expected return on plan assets	**(98,535)**	(97,857)	**–**	–
Amortization of prior service (cost) credit	**(732)**	(4,397)	**(461)**	266
Recognized net actuarial loss (gain)	**10,294**	22,757	**81**	(50)
Curtailment/settlement cost (credit)	**5,369**	(1,795)	**–**	–
Net periodic benefit cost	**$ 2,586**	$ 30,639	**$ 1,365**	$ 1,823

As part of the sale of Pennsylvania and Tennessee, the Company retained certain liabilities including the defined benefit pension and other postemployment benefit plans. The net periodic benefit costs of $2,395 and $3,129 for the years ended December 31, 2014 and 2013, respectively, related to these defined benefit plans is recorded as part of the gain on discontinued operations in the period actuarially determined. All net periodic benefit costs related to continuing operations is recorded as employee benefit expense in the consolidated statements of operations.

The accumulated benefit obligation (ABO) for all of the Company's defined benefit pension plans was $1,754,759 and $1,517,917 at December 31, 2014 and 2013, respectively. For certain Company defined benefit pension plans, the ABO exceeded the fair value of plan assets as follows at December 31:

	2014	**2013**
Accumulated benefit obligation	**$ 1,443,327**	$ 1,023,155
Fair value of plan assets	**1,242,781**	946,944

(Dollar Amounts in Thousands)

L. Defined Benefit Pension Plans and Other Postemployment Benefits (continued)

The projected benefit obligation exceeded the fair value of plan assets for certain of the Company's defined benefit pension plans as follows as of December 31:

	2014	2013
Projected benefit obligation	**$ 1,454,727**	$ 1,033,576
Fair value of plan assets	**1,242,781**	946,944

The following weighted-average assumptions were used to determine the benefit obligation as of December 31:

	Pension Benefits		Postemployment Benefits	
	2014	2013	2014	2013
Discount rate	**3.83%**	4.63%	**3.83%**	4.63%
Rate of compensation increase	**2.5%**	2.5%	**N/A**	N/A

During 2014, the Society of Actuaries issued new mortality tables (RP-2014) and a mortality improvement scale (MP-2014). Because the RP-2014 and MP-2014 reflect today's longer life expectancies, this new information was considered by the Company when measuring benefit obligations that are based on the life expectancy of the participants in the Plans. As a result, the Company updated its mortality assumptions from the RP-2000 used in 2013 to the RP-2014, projected generationally with MP-2014 projection scale, for the determination of the Plans' projected benefit obligation in 2014. This change resulted in an increase the Plans' projected benefit obligation and decrease in funded status of approximately $107,000 at December 31, 2014.

The following weighted-average assumptions were used to determine net periodic benefit cost for the years ended December 31:

	Pension Benefits		Postemployment Benefits	
	2014	2013	2014	2013
Discount rate	**4.63%**	3.72%	**4.63%**	3.72%
Expected long-term return on plan assets	**6.75%**	6.75%	**N/A**	N/A
Rate of compensation increase	**2.5%**	4.0-6.0%	**N/A**	N/A

(Dollar Amounts in Thousands)

L. Defined Benefit Pension Plans and Other Postemployment Benefits (continued)

The following healthcare cost trend rate assumptions were used in determining the benefit obligation of the post-employment healthcare benefits as of December 31:

	2014	2013
Healthcare cost trend rate assumed for next year	**7.1% – 7.6%**	7.4% – 7.8%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	**4.5%**	4.5%
Year the rate reaches the ultimate trend rate	**2030**	2030

The healthcare cost trend rate assumptions can have a significant effect on the amounts reported. A one-percentage-point change in assumed healthcare cost trend rate assumptions would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	$ 110	$ (91)
Effect of post-employment benefit obligation	1,280	(1,117)

In selecting the expected long-term return on plan assets, the Company considered the average rate of earnings on the assets invested or to be invested to provide the benefits for the defined benefit pension plans. This included considering the target asset allocation and the expected returns likely to be earned over the life of the defined benefit pension plans. This basis is consistent with the prior year.

The Company's defined benefit pension plans targeted asset allocations, by asset category, as of December 31, are as follows:

	2014	2013
Marketable equity securities	**24%**	26%
Marketable debt securities	**40%**	35%
Alternative investments	**36%**	39%
	100%	100%

L. Defined Benefit Pension Plans and Other Postemployment Benefits (continued)

Primarily all plan assets are held in the Mercy Health Retirement Trust (the Retirement Trust), which is centrally managed by the Mercy Health Home Office. The Retirement Trust has entered into a series of interest rate swap agreements. The combined targeted duration of these interest rate swap agreements and the marketable debt securities approximates the duration of the defined benefit pension plans. At December 31, 2014, 55% (45% at December 31, 2013) of the duration of the benefit obligation is subject to these interest rate swap agreements and cash bonds (15% through interest rate swap agreements and 40% through cash bonds). The purpose of this strategy is to economically hedge the changes in the net funded status due to changes in interest rates over the duration of the benefit obligation. Provisions of the interest rate swap agreements require 100% of the daily cash collateralization through the use of a designated custodian by the counterparty (or the Company). This mitigates the credit risk associated with these interest rate swap agreements.

The Company maintains diversification in its plan assets by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles and approaches. Accordingly, based on this diversification, management does not believe there are any concentrations of credit at the measurement date. The marketable debt securities within plan assets, including mortgage-backed and asset-backed obligations, are actively traded and the fair value reflects current market conditions.

(Dollar Amounts in Thousands)

L. Defined Benefit Pension Plans and Other Postemployment Benefits (continued)

The following is a summary of plan assets as of December 31, measured at fair value on a recurring basis based on the fair value hierarchy:

	2014				2013			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Plan Assets								
Cash and cash equivalents	$(2,236)	$ 28,820	–	$ 26,584	$ 5	$ 17,484	$ –	$ 17,489
Marketable debt securities:								
U.S. government	60,237	–	–	60,237	54,357	–	–	54,357
U. S. government agencies	–	2,865	–	2,865	–	2,827	–	2,827
Corporate	–	313,919	–	313,919	–	267,225	–	267,225
Interest rate swap agreements	–	3,271	–	3,271	–	(12,796)	–	(12,796)
Other	–	1,579	–	1,579	–	1,263	–	1,263
Marketable equity securities:								
U.S. large cap	55,954	–	–	55,954	59,280	–	–	59,280
U.S. mid cap	36,275	–	–	36,275	39,715	–	–	39,715
U.S. small cap	12,902	–	–	12,902	11,643	–	–	11,643
Foreign	45,427	–	–	45,427	80,512	–	–	80,512
Exchange traded/mutual funds:								
Equity funds	73,429	85,035	–	158,464	70,933	59,790	–	130,723
Diversified bond funds	13,641	–	–	13,641	52,265	–	–	52,265
Commingled investment funds	–	303,705	–	303,705	–	210,243	–	210,243
Alternative investments:								
Hedge funds	–	224,409	–	224,409	–	248,592	–	248,592
Private equity funds	–	–	290,438	290,438	–	–	278,971	278,971
Limited partnerships/companies	–	3,143	–	3,143	–	16,088	–	16,088
Total investments	281,174	981,201	290,438	1,552,813	368,710	810,716	278,971	1,458,397
Due from broker/custodian for investment activity, net	–	3,585	–	3,585	–	11,184	–	11,184
Total plan assets at fair value	$281,174	$ 984,786	$290,438	$1,556,398	$ 368,710	$821,900	$278,971	$1,469,581

L. Defined Benefit Pension Plans and Other Postemployment Benefits (continued)

Fair value methodologies for cash and cash equivalents, marketable debt securities, marketable equity securities, exchange traded/mutual funds and commingled investment funds included in Level 1 and Level 2 are consistent with the inputs described in Note C. The valuation of interest rate swap agreements is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap agreement. The discounted cash flow analysis reflects the contractual terms of the interest rate swap agreement, including the period to maturity, and uses observed market-based inputs, including interest rate curves and implied volatilities. The Company has categorized the interest rate swap agreements as a Level 2 measurement based on the transparency of inputs, including observable inputs, as well as the daily collateralization thresholds.

Following is the summary of the inputs and valuation techniques as of December 31, 2014 and 2013 used for valuing Level 2 securities in the portfolio:

Securities	Input	Valuation Technique
Marketable debt securities:		
U.S. government agencies	Broker/Dealer	Market
Corporate	Broker/Dealer	Market
Interest rate swap agreements	Broker/Dealer	Market
Other	Matrix	Market/Income
Exchange traded/mutual funds	NAV	Market
Commingled investment funds	NAV	Market
Hedge funds	NAV	Market/Income
Limited partnerships/companies	NAV	Market/Income

L. Defined Benefit Pension Plans and Other Postemployment Benefits (continued)

Alternative investments are not necessarily readily marketable and may include short sales on securities and trading in future contracts, options, foreign currency contracts, other derivative instruments and private equity investments. However, management has determined that the NAV is an appropriate estimate of the fair value of these investments at December 31, 2014 and 2013 based on the fact that the alternative investments are audited and accounted for at fair value by the administrators of the respective alternative investments. If the Company has the ability to redeem its investment in the respective alternative investment at the NAV with no significant restrictions on the redemption at the consolidated balance sheet date, the Company has categorized the alternative investment as a Level 2 measurement in the fair value hierarchy. If the Company does not have the ability to redeem the alternative investment at NAV at the consolidated balance sheet date due to significant restrictions, the Company has categorized the alternative investment as a Level 3 measurement. Alternative investments can be divested only at specified times in accordance with terms of the partnership agreements. Hedge fund redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated. These redemptions are subject to lock-up provisions that are generally imposed upon initial investment in the fund. Private equity funds are generally closed-end funds and have significant redemption restrictions that prohibit redemptions during the fund's life. Following is the summary of the inputs and valuation techniques as of December 31, 2014 and 2013 used for valuing Level 3 securities in the portfolio:

Securities	Input	Valuation Technique
Private equity funds	NAV	Income

For Level 3 securities, when observable prices are not available, the administrator of the prospective alternative investment might use one or more valuation techniques such as the market approach or the income approach for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using either the guideline company method or similar transaction method while the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. Significant increases (decreases) in any of those observable inputs in isolation would result in a significantly lower (higher) fair value measurement. The impact of these changes would be recognized over a period of time in accordance with applicable accounting guidance.

(Dollar Amounts in Thousands)

L. Defined Benefit Pension Plans and Other Postemployment Benefits (continued)

The following table summarizes the activity related to plan assets having fair value measurements based on significant unobservable inputs (Level 3):

	Hedge Funds	Private Equity Funds
Fair value at January 1, 2013	$ 34,261	$ 273,019
Purchases	–	72,000
Sales/settlement	(34,314)	(90,983)
Realized gains	1,151	21,239
Realized losses	–	(389)
Unrealized (losses) gains	(1,098)	4,085
Fair value at December 31, 2013	–	278,971
Purchases	–	**42,311**
Sales/settlement	–	**(42,031)**
Realized gains	–	**326**
Realized losses	–	**(2,654)**
Unrealized gains	–	**13,515**
Fair value at December 31, 2014	**$ –**	**$ 290,438**

Similar to assets whose use is limited, the Company participates in securities lending arrangements within the Retirement Trust with its custodian whereby the Retirement Trust lends a portion of its marketable securities to various brokers or financial institutions in exchange for cash or non-cash collateral for the marketable securities loaned. Cash collateral received in connection with the securities lending arrangements is invested in a short-term pooled fund (Retirement Pooled Fund) maintained by the Retirement Trust's custodian (State Street Bank and Trust Company). The Retirement Pooled Fund, which is structured similar to that of a money market financial instrument, consists primarily of short-term marketable debt securities and cash equivalents, which are stated at fair value, as determined by the administrator of the Retirement Pooled Fund, based on readily determinable market values of the underlying securities. The fair value of cash collateral held for loaned marketable securities and the obligation to return the collateral is shown net in plan assets. The Company is required to fund any decline in the underlying market value of invested collateral below the initial amount provided by the various brokers or financial institutions.

(Dollar Amounts in Thousands)

L. Defined Benefit Pension Plans and Other Postemployment Benefits (continued)

The projected benefit payments for the Plans are as follows:

	Pension Benefits	Post-Employment Benefits
2015	$ 88,977	$ 1,911
2016	91,039	2,039
2017	95,426	2,135
2018	96,432	1,602
2019	99,252	1,624
2020 – 2024	508,612	8,228

The Company expects to contribute $10,330 to its defined benefit pension plans and $1,911 to its post-employment benefit plans in 2015.

Defined Contribution Benefit Plans

The Company has several defined contribution benefit plans to assist eligible employees in providing for retirement. Under such plans, the Company recognized expense of $73,406 and $31,706 for the years ended December 31, 2014 and 2013, respectively, related to employer contributions, which is included in employee benefits expense in the consolidated statements of operations. The increase in employee benefits expense related to employer contributions is due to an increase in the number of participants in the defined contribution benefit plans.

M. Investments in Unconsolidated Organizations

On September 30, 2013, HSP invested $250,000 in a not-for-profit health system, Summa Health System (Summa). Summa, located in Akron, Ohio, is a tax-exempt integrated health care delivery system and provides health services and insurance to communities in Northeast Ohio. HSP has an ownership interest of 30% in Summa and does not manage or control the operations. The investment is accounted for under the equity method of accounting wherein HSP's share of the income of Summa is reflected in the Company's consolidated statements of operations and changes in net assets as an increase in the income from investments in unconsolidated organizations, and is recorded on the consolidated statements of operations and changes in net assets as other revenue, net.

(Dollar Amounts in Thousands)

M. Investments in Unconsolidated Organizations (continued)

The Company holds membership units in Premier Healthcare Alliance, LP (Premier), which is a group purchasing organization (GPO). The Company's participation in the GPO provides purchasing contract rates and rebates the Company would not be able to obtain on its own. In 2013, the general partner, Premier, Inc., restructured from a privately held corporation to a publicly traded company through an initial public offering. In connection with the restructuring, the Company received exchanged membership units in Premier which have vesting rights over a seven-year period and upon vesting become eligible for exchange into the Class A publically traded common stock of Premier, Inc. The Company currently accounts for its membership units in Premier using the equity method of accounting. The increase in the estimated value of the Company's membership units as they vest is considered a vendor incentive under applicable accounting literature, which increase the Company's investment in Premier and reduces supplies expense over the seven-year vesting period. The Company recognized a vendor incentive for the common stock vesting of $17,053 for the year ended December 31, 2014 ($0 for the year ended December 31, 2013). Additionally, the Company recognized income from unconsolidated organizations related to Premier of $3,252 for the year ended December 31, 2014 ($0 for the year ended December 31, 2013).

The following is a summary of the investments in unconsolidated organizations as of December 31:

	2014	2013
Summa Health System	**$ 278,313**	$ 258,201
Premier	**20,881**	–
Other	**10,174**	17,682
	$ 309,368	$ 275,883

The following is a summary of the income from unconsolidated organizations, which is included in other revenue, net, for the years ended December 31:

	2014	2013
Summa Health System	**$ 20,113**	$ 8,201
Other	**4,845**	201
	$ 24,958	$ 8,402

(Dollar Amounts in Thousands)

M. Investments in Unconsolidated Organizations (continued)

The following is a summary of Summa's assets, liabilities, and net assets as of December 31 (from its unaudited consolidated financial statements):

	2014	2013
Assets		
Cash and cash equivalents	**$ 147,398**	$ 265,520
Net patient accounts receivable	**134,012**	147,386
Property and equipment, net	**460,242**	462,484
Assets whose use is limited	**753,054**	598,475
Other assets	**142,072**	148,529
Total assets	**$ 1,636,778**	$ 1,622,394
Liabilities and net assets		
Salaries and related liabilities	**$ 47,107**	$ 55,287
Accounts payable and accrued expenses	**53,508**	54,330
Accrued claims expense and related liabilities	**25,823**	33,576
Retirement liabilities	**46,902**	17,710
Long-term debt	**407,858**	421,066
Other liabilities	**112,891**	108,491
Total liabilities	**694,089**	690,460
Net assets	**942,689**	931,934
Total liabilities and net assets	**$ 1,636,778**	$ 1,622,394

(Dollar Amounts in Thousands)

M. Investments in Unconsolidated Organizations (continued)

The following is a summary of Summa's results of operations for the years ended December 31 (from its unaudited consolidated financial statements):

	2014	2013
Unrestricted revenue:		
Net patient service revenue less provision for bad debts	**$ 819,075**	$ 820,915
Member revenue, net	**547,193**	494,794
Other revenue, net	**105,197**	86,728
	1,471,465	1,402,437
Expenses:		
Salaries and wages	**475,907**	460,926
Employee benefits	**71,589**	78,184
Medical claims expense	**386,646**	333,015
Purchased services	**190,635**	204,695
Supplies	**230,504**	228,384
Depreciation and amortization	**53,006**	51,127
Interest	**18,539**	18,921
	1,426,826	1,375,252
Excess of revenue over expenses before other income	**44,639**	27,185
Other income (loss):		
Other, primarily investment income	**19,852**	26,764
Other, net	**(16,249)**	2,010
	3,603	28,774
Excess of revenue over expenses	**48,242**	55,959
Changes in net assets:		
Change in unrealized gains and losses on restricted investments	**799**	2,097
Restricted contributions	**9,189**	8,890
Net assets released from restriction for operating activities	**(7,221)**	(4,958)
Pension liability adjustment	**(40,060)**	612
HealthSpan Partners investment	**–**	250,000
Other changes, net	**(194)**	24,326
Change in net assets	**$ 10,755**	$ 336,926

N. Fourth Quarter Adjustments – Unaudited

Companies that are considered public (e.g., have publicly traded debt) are required to disclose significant changes occurring in the fourth quarter that may impact previously reported quarterly financial statements. Management has determined there are no transactions that require disclosure for the fourth quarter ended December 31, 2014.

O. Subsequent Events

The Company has evaluated and disclosed any subsequent events through March 25, 2015, which is the date the consolidated financial statements were issued and made publicly available. Subsequent to December 31, 2014, the Company drew $100,000 on the $200,000 revolving credit agreement for purposes of working capital support. No other recognized or non-recognized subsequent events were identified for recognition or disclosure in the consolidated financial statements.

Supplementary Information

Building a better
working world

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Report of Independent Auditors on Supplementary Information

The Board of Trustees
Mercy Health

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheets and consolidating statements of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

March 25, 2015

Consolidating Balance Sheet
Mercy Health
December 31, 2014

	Youngstown	Lorain	Toledo	Springfield	Cincinnati	Paducah	Lima	Mercy Health Home Office	Mercy Health Shared Services Organization	Captive Consolidated	Self Funding Programs	Discontinued Operations	HealthSpan Partners	Eliminations	Total
Assets															
Current assets:															
Cash and cash equivalents	$ (6,955)	$ (27,267)	$ (66,130)	$ (21,542)	$ (35,277)	$ 11,178	$ 34,933	$ 174,581	$ (88,097)	$ 2,782	$ 116,031	$ 12,124	$ 11,810	$ -	$ 118,171
Investments	9	-	753	362	-	-	-	44,917	-	-	-	-	4,959	-	51,000
Total cash and investments	(6,946)	(27,267)	(65,377)	(21,180)	(35,277)	11,178	34,933	219,498	(88,097)	2,782	116,031	12,124	16,769	-	169,171
Net patient accounts less allowance for doubtful receivables of $193,581	70,160	31,720	118,715	37,321	140,754	34,146	60,559	-	-	-	-	22	1,490	6,184	501,071
Net premiums receivable	-	-	-	-	-	-	-	-	-	-	-	-	22,867	-	22,867
Other receivables	19,771	14,093	22,512	19,263	52,431	13,223	11,367	(13,693)	(149,369)	469	1,779	60,937	9,566	-	62,349
Assets whose use is limited under securities lending arrangements	-	-	-	-	-	-	-	-	-	-	49,976	-	-	-	49,976
Estimated receivables from third-party payors	6,003	4,634	12,577	630	2,984	-	2,741	6,184	-	-		-	-	(6,184)	29,569
Inventories	17,203	5,311	22,535	5,638	24,353	5,230	9,978	-	-	-	-	-	8,317	-	98,565
Prepaid expenses and other current assets	(450)	(53)	1,759	(165)	12,464	802	(176)	5,265	16,262	105	67,904	992	4,187	(55,357)	53,539
Total current assets	105,741	28,438	112,721	41,507	197,709	64,579	119,402	217,254	(221,204)	3,356	235,690	74,075	63,196	(55,357)	987,107
Assets whose use is limited:															
Board designated funds	348,334	18,863	416,509	96,041	251,319	100,141	344,888	152,896	-	81,364	2,412,919	7,658	28,449	(2,181,048)	2,078,333
Trustee-held assets and funds for self-insurance liabilities	2,580	-	405	-	-	-	-	-	-	110,059	(1)	-	-	-	113,043
Securities on loan under securities lending arrangements	-	-	-	-	-	-	-	-	-	-	58,258	-	-	-	58,258
Restricted for interest rate swap agreements collateral requirements	-	-	-	-	-	-	-	-	-	-	11,511	-	-	-	11,511
Total assets whose use is limited	350,914	18,863	416,914	96,041	251,319	100,141	344,888	152,896	-	191,423	2,482,687	7,658	28,449	(2,181,048)	2,261,145
Property and equipment, net	307,778	102,853	445,354	238,922	654,296	79,837	228,438	5,611	257,517	310	-	-	68,240	-	2,389,156
Retirement assets	-	-	-	-	-	-	-	2,072	-	-	-	-	-	-	2,072
Investments in unconsolidated organizations	39	1,403	3,233	886	1,975	1,903	734	20,881	-	-	-	-	278,314	-	309,368
Other long-term assets	19,193	8,133	25,848	1,765	71,985	3,776	18,836	315,948	-	-	1,274,819	13,586	10,675	(1,570,678)	193,886
Total assets	$ 783,665	$ 159,690	$ 1,004,070	$ 379,121	$ 1,177,284	$ 250,236	$ 712,298	$ 714,662	$ 36,313	$ 195,089	$ 3,993,196	$ 95,319	$ 448,874	$ (3,807,083)	$ 6,142,734
Liabilities and net assets															
Current liabilities:															
Accounts payable	$ (15,908)	$ (18,110)	$ (28,282)	$ (3,377)	$ (865)	$ (9,467)	$ (9,741)	$ 379,331	$ (95,415)	$ (1,192)	$ (26,604)	$ (4,155)	$ 33,007	$ -	$ 199,222
Salaries and related liabilities	27,289	12,495	30,661	9,752	59,309	6,942	21,177	93,149	162	1	3	-	17,549	-	278,489
Accrued claims expense and related liabilities	-	-	-	-	-	-	-	-	408	-	-	-	28,373	-	28,781
Estimated payables to third-party payors	-	-	-	-	-	6,401	-	-	-	-	-	17,355	10,875	11,616	46,247
Accrued interest	-	-	29	-	310	-	-	-	-	-	13,866	-	-	-	14,205
Current portion of long-term debt	9,321	4,351	17,029	5,036	25,137	4,446	9,190	234	-	-	254,829	134	-	(66,973)	262,734
Payable under securities lending arrangements	-	-	-	-	-	-	-	-	-	-	49,976	-	-	-	49,976
Other current liabilities	11,440	655	7,875	4,302	3,737	665	1,335	33,038	1,024	-	147	3,048	7,784	-	75,050
Total current liabilities	32,142	(609)	27,312	15,713	87,628	8,987	21,961	505,752	(93,821)	(1,191)	292,217	16,382	97,588	(55,357)	954,704
Long-term debt, net of current portion	133,642	109,519	178,557	152,065	578,708	37,724	96,049	1,055	-	-	1,484,627	2,705	313,538	(1,570,679)	1,517,510
Interest rate swap agreements liability	-	-	-	-	-	-	-	-	-	-	40,590	-	-	-	40,590
Retirement liabilities	1,327	78	13,874	-	1,882	-	3,081	183,040	-	-	-	32,148	-	-	235,430
Self-insurance liabilities	-	-	376	-	-	-	-	2,412	-	108,648	24,033	-	609	-	136,078
Other long-term liabilities	10,305	949	23,571	1,317	46,585	110	10,294	28,519	-	-	2,181,048	-	46,285	(2,181,047)	167,936
Total liabilities	177,416	109,937	243,690	169,095	714,803	46,821	131,385	720,778	(93,821)	107,457	4,022,515	51,235	458,020	(3,807,083)	3,052,248
Net assets (deficit):															
Unrestricted	565,606	31,126	736,022	204,344	408,961	195,411	572,289	(6,192)	130,134	87,632	(29,319)	43,947	(9,146)	(83,506)	2,847,309
Temporarily restricted	12,693	9,177	11,116	4,259	32,809	5,719	3,889	76	-	-	-	-	-	-	79,738
Permanently restricted	25,492	9,450	10,652	893	20,436	720	60	-	-	-	-	137	-	-	67,840
Total net assets (deficit) excluding noncontrolling interest	603,791	49,753	757,790	209,496	462,206	201,850	576,238	(6,116)	130,134	87,632	(29,319)	44,084	(9,146)	(83,506)	2,994,887
Noncontrolling interest	2,458	-	2,590	530	275	1,565	4,675	-	-	-	-	-	-	83,506	95,599
Total net assets (deficit)	606,249	49,753	760,380	210,026	462,481	203,415	580,913	(6,116)	130,134	87,632	(29,319)	44,084	(9,146)	-	3,090,486
Total liabilities and net assets (deficit)	$ 783,665	$ 159,690	$ 1,004,070	$ 379,121	$ 1,177,284	$ 250,236	$ 712,298	$ 714,662	$ 36,313	$ 195,089	$ 3,993,196	$ 95,319	$ 448,874	$ (3,807,083)	$ 6,142,734

Consolidating Balance Sheet
Mercy Health
December 31, 2013

	Youngstown	Lorain	Toledo	Springfield	Cincinnati	Paducah	Lima	Mercy Health Home Office	Mercy Health Shared Services Organization	Captive Consolidated	Self Funding Programs	Discontinued Operations	HealthSpan Partners	Eliminations	Total
Assets															
Current assets:															
Cash and cash equivalents	$ (5,374)	$ 4,574	$ (7,047)	$ (7,555)	$ (22,058)	$ 9,385	$ 42,708	$ (138,538)	$ 56,601	$ (3,590)	$ 70,973	$ 21,192	$ 130,373	$ -	$ 151,644
Investments	24	-	714	362	-	-	-	110,013	-	-	5,009	-	-	-	116,122
Total cash and investments	(5,350)	4,574	(6,333)	(7,193)	(22,058)	9,385	42,708	(28,525)	56,601	(3,590)	75,982	21,192	130,373	-	267,766
Net patient accounts less allowance															
for doubtful receivables of $203,456	70,634	24,432	112,163	35,484	133,962	30,164	50,085	-	-	-	-	(134)	-	(13,739)	443,051
Net premiums receivable	-	-	-	-	-	-	-	-	-	-	401	-	19,267	-	19,668
Other receivables	11,193	739	13,980	4,375	21,994	7,404	10,537	5,624	(111,553)	84	1,431	22,864	17,995	89,290	95,957
Assets whose use is limited under securities lending arrangements	-	-	-	-	-	-	-	-	-	-	65,741	-	-	-	65,741
Estimated receivables from third-party payors	6,075	1,093	11,249	973	2,896	-	3,955	3,000	-	-	-	-	-	11,896	41,137
Inventories	15,152	4,487	19,997	4,970	22,222	4,608	9,165	-	-	-	-	-	6,727	-	87,328
Prepaid expenses and other current assets	(507)	137	4,016	(85)	11,747	821	13	950	15,594	5	71,173	1,015	409	(59,131)	46,157
Total current assets	97,197	35,462	155,072	38,524	170,763	52,382	116,463	(18,951)	(39,358)	(3,501)	214,728	44,937	174,771	28,316	1,066,805
Assets whose use is limited:															
Board designated funds	333,105	3,997	400,323	90,800	282,612	95,438	295,084	119,748	-	84,953	2,341,665	27,518	400	(2,100,507)	1,975,136
Trustee-held assets and funds for self-insurance liabilities	2,373	-	591	-	-	-	-	-	-	107,462	-	-	-	-	110,426
Securities on loan under securities lending arrangements	-	-	-	-	-	-	-	-	-	-	75,952	-	-	-	75,952
Restricted for interest rate swap agreements collateral requirements	-	-	-	-	-	-	-	-	-	-	1,641	-	-	-	1,641
Total assets whose use is limited	335,478	3,997	400,914	90,800	282,612	95,438	295,084	119,748	-	192,415	2,419,258	27,518	400	(2,100,507)	2,163,155
Property and equipment, net	289,015	104,287	421,998	244,340	659,597	81,613	243,111	3,769	218,676	627	97	-	75,927	-	2,343,057
Retirement assets	21,900	-	284	-	-	-	5,672	-	-	-	-	-	-	-	27,856
Investments in unconsolidated organizations	39	1,340	3,579	753	1,820	1,135	469	8,547	-	-	-	-	258,201	-	275,883
Other long-term assets	22,167	8,775	26,605	2,245	75,586	4,080	13,491	306,411	-	-	1,365,997	14,372	22,817	(1,652,249)	210,297
Total assets	$ 765,796	$ 153,861	$ 1,008,452	$ 376,662	$ 1,190,378	$ 234,648	$ 674,290	$ 419,524	$ 179,318	$ 189,541	$ 4,000,080	$ 86,827	$ 532,116	$ (3,724,440)	$ 6,087,053
Liabilities and net assets															
Current liabilities:															
Accounts payable	$ (21,278)	$ (18,365)	$ (42,117)	$ (11,820)	$ (15,783)	$ (6,862)	$ (17,780)	$ 34,498	$ 203,196	$ 1,859	$ 2,690	$ (32,131)	$ 53,841	$ 89,290	$ 219,238
Salaries and related liabilities	26,589	9,039	28,468	10,686	59,389	6,798	20,717	23,780	3,870	-	603	899	12,276	-	203,114
Accrued claims expense and related liabilities	-	-	-	-	347	-	-	-	-	-	546	-	48,234	-	49,127
Estimated payables to third-party payors	-	-	-	-	-	10,869	-	-	-	-	-	22,126	20,192	9,185	62,372
Accrued interest	2	-	30	-	289	-	-	-	-	-	14,704	-	-	-	15,025
Current portion of long-term debt	8,880	4,120	16,230	6,506	26,922	4,445	8,742	224	-	-	152,200	2,051	-	(70,159)	160,161
Payable under securities lending arrangements	-	-	-	-	-	-	-	-	-	-	65,741	-	-	-	65,741
Other current liabilities	9,425	1,387	15,566	4,044	12,156	2,217	6,052	545	470	-	588	4,949	9,190	-	66,589
Total current liabilities	23,618	(3,819)	18,177	9,416	83,320	17,467	17,731	59,047	207,536	1,859	237,072	(2,106)	143,733	28,316	841,367
Long-term debt, net of current portion	143,025	113,863	195,585	157,101	603,861	41,319	105,239	1,290	-	-	1,641,183	25,989	301,975	(1,648,551)	1,681,879
Interest rate swap agreements liability	-	-	-	-	-	-	-	-	-	-	29,508	-	-	-	29,508
Retirement liabilities	4,011	17,282	62,817	11,492	3,717	1,755	3,002	-	-	-	-	17,543	-	-	121,619
Self-insurance liabilities	-	-	569	-	-	-	-	4,435	-	108,112	26,927	-	247	-	140,290
Other long-term liabilities	11,486	714	21,209	4,841	60,717	-	13,041	19,078	-	-	2,100,507	406	47,546	(2,104,205)	175,340
Total liabilities	182,140	128,040	298,357	182,850	751,615	60,541	139,013	83,850	207,536	109,971	4,035,197	41,832	493,501	(3,724,440)	2,990,003
Net assets (deficit):															
Unrestricted	542,670	6,789	686,323	187,994	399,605	165,400	530,325	334,357	(28,218)	79,570	(35,117)	44,860	38,615	(81,936)	2,871,237
Temporarily restricted	12,510	9,591	10,503	4,390	18,152	7,016	25	1,317	-	-	-	-	-	-	63,504
Permanently restricted	25,424	9,441	10,622	893	20,415	133	61	-	-	-	-	135	-	-	67,124
Total net assets (deficit) excluding noncontrolling interest	580,604	25,821	707,448	193,277	438,172	172,549	530,411	335,674	(28,218)	79,570	(35,117)	44,995	38,615	(81,936)	3,001,865
Noncontrolling interest	3,052	-	2,647	535	591	1,558	4,866	-	-	-	-	-	-	81,936	95,185
Total net assets (deficit)	583,656	25,821	710,095	193,812	438,763	174,107	535,277	335,674	(28,218)	79,570	(35,117)	44,995	38,615	-	3,097,050
Total liabilities and net assets (deficit)	$ 765,796	$ 153,861	$ 1,008,452	$ 376,662	$ 1,190,378	$ 234,648	$ 674,290	$ 419,524	$ 179,318	$ 189,541	$ 4,000,080	$ 86,827	$ 532,116	$ (3,724,440)	$ 6,087,053

Consolidating Statement of Operations and Changes in Net Assets
Mercy Health
December 31, 2014

	Youngstown	Lorain	Toledo	Springfield	Cincinnati	Paducah	Lima	Mercy Health Home Office	Mercy Health Shared Services Organization	Captive Consolidated	Self Funding Programs	Discontinued Operations	HealthSpan Partners	Eliminations	Total
Unrestricted revenue															
Patient service revenue (net of contractual provision and discounts)	$ 729,946	$ 266,043	$ 954,615	$ 320,035	$ 1,219,185	$ 245,836	$ 474,047	$ 2,388	$ -	$ -	$ -	$ -	$ -	$ (105,164)	$ 4,106,931
Provision for bad debts	43,204	15,881	69,116	28,262	87,038	13,249	12,005	-	-	-	-	-	-	-	268,755
Net patient service revenue less provision for bad debts	686,742	250,162	885,499	291,773	1,132,147	232,587	462,042	2,388	-	-	-	-	-	(105,164)	3,838,176
Member revenue, net	-	-	-	-	-	-	-	-	-	-	-	-	477,380	-	477,380
Other revenue, net	21,125	8,635	30,936	6,872	47,071	8,920	13,203	29,398	556,177	36,748	339,467	-	33,633	(937,557)	194,628
	707,867	258,797	916,435	298,645	1,179,218	241,507	475,245	31,786	556,177	36,748	339,467	-	511,013	(1,042,721)	4,510,184
Expenses															
Salaries and wages	238,115	104,127	361,514	103,515	454,001	83,172	150,533	22,339	187,895	3,101	2,295	-	125,537	(69,994)	1,766,150
Employee benefits	63,155	24,127	94,835	21,400	93,384	20,735	41,844	7,577	47,353	586	269,331	-	36,485	(293,181)	427,631
Supplies	125,969	34,687	132,302	46,099	196,641	42,266	78,303	132	5,867	17	55	-	86,075	(22,246)	726,167
Purchased services	139,434	52,139	183,028	64,929	226,833	42,414	81,920	7,103	238,128	1,944	6,584	-	76,803	(560,564)	560,695
Utilities	10,347	3,650	12,373	4,943	15,231	5,134	5,320	40	11,904	21	12	-	2,444	-	71,419
Rent	9,593	4,855	15,304	3,989	31,431	4,484	10,889	2,079	5,650	11	166	-	2,835	(1)	91,285
Medical professional fees	12,910	6,984	32,601	8,074	28,961	3,785	9,647	-	308	-	-	-	2,544	(356)	105,458
Medical claims expense	-	-	-	-	-	-	-	-	863	-	-	-	182,823	-	183,686
Insurance	6,155	2,971	7,320	2,878	9,197	2,593	2,385	(10,092)	26	28,395	7,149	-	5,586	(27,319)	37,244
Interest	5,944	5,230	9,227	7,228	28,321	1,981	4,949	62	(182)	28	53,661	-	9,920	(69,060)	57,309
Depreciation and amortization	34,149	10,095	42,603	16,884	59,081	9,205	19,033	691	50,109	317	1,734	-	13,335	-	257,236
Other	14,154	5,210	18,411	6,976	24,916	2,241	10,093	1,852	8,258	476	335	-	1,551	-	94,473
	659,925	254,075	909,518	286,915	1,167,997	218,010	414,916	31,783	556,179	34,896	341,322	-	545,938	(1,042,721)	4,378,753
Excess of revenue over expenses (expenses over revenue) before other (loss) income	47,942	4,722	6,917	11,730	11,221	23,497	60,329	3	(2)	1,852	(1,855)	-	(34,925)	-	131,431
Other (loss) income:															
Realized and unrealized interest rate swap agreements loss	(1,454)	(1,154)	(1,929)	(1,606)	(5,887)	(439)	(1,094)	(14)	-	-	(25,627)	(29)	-	-	(39,233)
Other (expenses) income related to long-lived assets	(2,753)	(530)	(1,390)	(246)	(1,455)	(55)	(72)	364	-	-	-	-	(17,181)	-	(23,318)
Foundation net operating (loss) gain	(1,441)	(1,202)	(1,422)	(592)	(2,263)	(398)	21	-	-	-	(2,634)	-	-	-	(9,931)
Other, primarily investment income	13,681	680	16,245	3,928	11,931	4,073	12,714	15,261	-	7,236	3,143	1,292	966	-	91,150
Excess of revenue over expenses (expenses over revenue)	55,975	2,516	18,421	13,214	13,547	26,678	71,898	15,614	(2)	9,088	(26,973)	1,263	(51,140)	-	150,099
Excess of (expenses over revenue) revenue over expenses attributable to noncontrolling interest	(141)	-	364	(5)	(315)	426	13,026	-	-	-	-	-	-	6,607	19,962
Excess of revenue over expenses (expenses over revenue) attributable to Mercy Health	56,116	2,516	18,057	13,219	13,862	26,252	58,872	15,614	(2)	9,088	(26,973)	1,263	(51,140)	(6,607)	130,137
Changes in net assets:															
Gain on discontinued operations	-	-	-	-	1,407	-	-	-	-	-	1,847	7,643	-	-	10,897
Change in net unrealized gains and losses on restricted investments	(749)	(530)	(230)	3	(684)	(1)	29	-	-	-	-	-	-	-	(2,162)
Restricted contributions	2,577	2,244	2,041	1,453	18,971	2,380	1,575	-	-	-	-	-	-	-	31,241
Change in plan assets and benefit obligations of postretirement plans	(17)	-	(43)	(517)	509	-	(262)	(160,334)	-	-	-	(14,390)	-	-	(175,054)
Distributions to noncontrolling interests	(451)	-	(422)	-	-	(418)	(13,217)	-	-	-	-	-	-	-	(14,508)
Net assets released from restriction for operating activities	(3,780)	(2,216)	(1,178)	(1,561)	(4,440)	(2,006)	(407)	(1,242)	-	-	-	-	-	-	(16,830)
Other changes, net	(30,962)	21,918	31,696	3,622	(5,591)	2,675	(13,980)	(195,828)	158,354	(1,026)	30,924	4,572	3,379	-	9,753
Change in net assets	22,593	23,932	50,285	16,214	23,719	29,308	45,636	(341,790)	158,352	8,062	5,798	(912)	(47,761)	-	(6,564)
Changes in net assets attributable to noncontrolling interest	(594)	-	(57)	(5)	(316)	7	(191)	-	-	-	-	-	-	1,570	414
Changes in net assets attributable to Mercy Health	23,187	23,932	50,342	16,219	24,035	29,301	45,827	(341,790)	158,352	8,062	5,798	(912)	(47,761)	(1,570)	(6,978)
Increase (decrease) in total net assets	22,593	23,932	50,285	16,214	23,719	29,308	45,636	(341,790)	158,352	8,062	5,798	(912)	(47,761)	-	(6,564)
Net assets (deficit) at beginning of period	583,656	25,821	710,095	193,812	438,762	174,107	535,277	335,674	(28,218)	79,570	(35,117)	44,996	38,615	-	3,097,050
Net assets (deficit) at end of period	$ 606,249	$ 49,753	$ 760,380	$ 210,026	$ 462,481	$ 203,415	$ 580,913	$ (6,116)	$ 130,134	$ 87,632	$ (29,319)	$ 44,084	$ (9,146)	$ -	$ 3,090,486

Consolidating Statement of Operations and Changes in Net Assets
Mercy Health
December 31, 2013

	Youngstown	Lorain	Toledo	Springfield	Cincinnati	Paducah	Lima	Mercy Health Home Office	Mercy Health Shared Services Organization	Captive Consolidated	Self Funding Programs	Discontinued Operations	HealthSpan Partners	Eliminations	Total
Unrestricted revenue															
Patient service revenue (net of contractual provision and discounts)	$ 673,620	$ 260,059	$ 944,455	$ 319,442	$ 1,131,276	$ 240,680	$ 483,926	$ -	$ -	$ -	$ (5,119)	$ -	$ -	$ (108,755)	$ 3,939,584
Provision for bad debts	40,103	19,903	86,141	25,297	78,728	22,556	21,777	-	-	-	-	-	-	-	294,505
Net patient service revenue less provision for bad debts	633,517	240,156	858,314	294,145	1,052,548	218,124	462,149	-	-	-	(5,119)	-	-	(108,755)	3,645,079
Member revenue, net	-	-	-	-	-	-	-	-	-	-	9,105	-	108,704	-	117,809
Other revenue, net	24,928	6,211	35,416	8,264	54,738	9,528	12,077	48,548	250,185	31,835	89,314	-	8,473	(396,214)	183,303
	658,445	246,367	893,730	302,409	1,107,286	227,652	474,226	48,548	250,185	31,835	93,300	-	117,177	(504,969)	3,946,191
Expenses															
Salaries and wages	250,732	110,019	383,120	109,314	457,037	88,151	159,993	24,657	70,386	2,760	6,152	-	29,264	(72,911)	1,618,674
Employee benefits	60,517	25,714	104,239	27,412	91,125	22,307	48,937	2,033	17,735	854	1,687	606	8,180	(28,033)	383,313
Supplies	123,680	34,650	131,061	47,326	194,612	43,100	79,520	287	1,411	8	(1,087)	-	21,074	(22,505)	653,137
Purchased services	109,181	44,087	126,301	55,977	162,072	32,144	60,585	19,759	107,137	3,243	14,101	3,729	10,141	(291,271)	457,186
Utilities	10,086	3,604	11,391	4,801	13,089	4,218	5,063	375	12,848	8	115	-	701	-	66,299
Rent	13,203	4,364	20,029	4,169	27,950	5,642	11,792	2,221	2,089	8	322	-	614	(30)	92,373
Medical professional fees	11,376	6,494	31,799	8,372	30,362	3,959	11,337	-	-	-	180	-	(8)	(112)	103,759
Medical claims expense	-	-	-	-	347	-	-	-	-	-	8,746	-	34,397	-	43,490
Insurance	6,436	3,105	6,860	3,122	8,062	2,719	1,995	2	28	24,325	1,837	308	437	(25,681)	33,555
Interest	5,915	5,115	10,156	7,518	17,058	2,158	5,327	73	(235)	37	55,901	1,927	1,975	(64,426)	48,499
Depreciation and amortization	32,058	9,771	41,698	17,949	48,512	9,179	20,285	719	40,102	317	1,248	-	3,217	-	225,055
Other	15,369	5,413	18,723	6,775	25,379	2,571	10,136	2,826	3,273	517	652	-	1,889	-	93,523
	638,553	252,336	885,377	292,735	1,075,605	216,148	414,970	52,952	254,774	32,077	89,854	6,570	111,881	(504,969)	3,818,863
Excess of revenue over expenses (expenses over revenue) before other (loss) income	19,892	(5,969)	8,353	9,674	31,681	11,504	59,256	(4,404)	(4,589)	(242)	3,446	(6,570)	5,296	-	127,328
Other (loss) income:															
Realized and unrealized interest rate swap agreements (loss) gain	(1,546)	(1,126)	(2,093)	(1,671)	(5,338)	(477)	(1,184)	(16)	-	-	55,710	(428)	-	-	41,831
Other (expenses) income related to long-lived assets	(20)	(578)	(470)	(2,314)	(527)	168	(6)	-	(6,000)	-	-	3	-	-	(9,744)
Foundation net operating (loss) gain	(880)	(1,341)	1,400	(688)	(1,975)	(396)	102	-	-	-	(4,061)	-	-	-	(7,839)
Other, primarily investment income	23,819	1,484	28,756	7,137	20,929	6,890	21,582	25,020	-	14,077	26,346	3,213	-	-	179,253
Excess of revenue over expenses (expenses over revenue) before a business combination	41,265	(7,530)	35,946	12,138	44,770	17,689	79,750	20,600	(10,589)	13,835	81,441	(3,782)	5,296	-	330,829
Excess of fair value of assets acquired over liabilities assumed in a business combination	-	-	-	-	-	-	-	-	-	-	-	-	33,319	-	33,319
Excess of revenue over expenses (expenses over revenue)	41,265	(7,530)	35,946	12,138	44,770	17,689	79,750	20,600	(10,589)	13,835	81,441	(3,782)	38,615	-	364,148
Excess of revenue over expenses (expenses over revenue) attributable to noncontrolling interest	414	-	477	4	(225)	679	13,670	-	-	-	-	-	-	5,848	20,867
Excess of revenue over expenses (expenses over revenue) attributable to Mercy Health	40,851	(7,530)	35,469	12,134	44,995	17,010	66,080	20,600	(10,589)	13,835	81,441	(3,782)	38,615	(5,848)	343,281
Changes in net assets:															
Gain (loss) on discontinued operations	-	-	-	-	683	-	-	-	-	-	(4,440)	35,072	-	-	31,315
Change in net unrealized gains and losses on restricted investments	778	717	368	114	426	(389)	-	-	-	-	-	56	-	-	2,070
Restricted contributions	3,303	852	1,358	1,237	3,529	6,574	23	-	-	-	-	140	-	-	17,016
Change in plan assets and benefit obligations of postretirement plans	30,148	30,657	14,988	24,277	17,269	-	45,032	-	-	-	-	10,156	-	-	172,527
Distributions to noncontrolling parties	(692)	-	(497)	-	-	(620)	(13,641)	-	-	-	-	-	-	-	(15,450)
Net assets released from restriction for operating activities	(4,407)	(1,162)	(1,512)	(1,517)	(4,532)	(446)	-	(1,122)	-	-	-	-	-	-	(14,698)
Other changes, net	6,536	653	1,888	2,246	8,294	745	(788)	29,005	(16,042)	(1)	(22,929)	159	-	-	9,766
Changes in net assets	76,931	24,187	52,539	38,495	70,439	23,553	110,376	48,483	(26,631)	13,834	54,072	41,801	38,615	-	566,694
Changes in net assets attributable to noncontrolling interest	(327)	-	(20)	4	(225)	59	30	-	-	-	-	-	-	21,938	21,459
Changes in net assets attributable to Mercy Health	77,258	24,187	52,559	38,491	70,664	23,494	110,346	48,483	(26,631)	13,834	54,072	41,801	38,615	(21,938)	545,235
Increase (decrease) in total net assets	76,931	24,187	52,539	38,495	70,439	23,553	110,376	48,483	(26,631)	13,834	54,072	41,801	38,615	-	566,694
Net assets (deficit) at beginning of period	506,725	1,634	657,556	155,317	368,324	150,554	424,901	287,191	(1,587)	65,736	(89,189)	3,194	-		2,530,356
Net assets (deficit) at end of period	$ 583,656	$ 25,821	$ 710,095	$ 193,812	$ 438,763	$ 174,107	$ 535,277	$ 335,674	$ (28,218)	$ 79,570	$ (35,117)	$ 44,995	$ 38,615	$ -	$ 3,097,050

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